

# Commonwealth of Massachusetts



**Reports on Compliance and Internal Controls in  
Accordance with Government Auditing Standards and  
the Requirements of OMB Circular A-133 and the  
Schedule of Expenditures of Federal Awards**

*For the Fiscal Year Ended June 30, 2004*

***Martin J. Benison, CGFM***  
*State Comptroller*

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## Norman Rockwell Museum

Photograph by Art Evans

The Norman Rockwell Museum is one of the few museums in the country to have grown, literally, out of popular demand and celebrates its thirty-fifth anniversary in 2004. Located on Stockbridge's historic Main Street for its first 24 years, the Museum moved in 1993 to its present home, which was designed by the renowned architect Robert A. M. Stern and is situated on 36 picturesque acres overlooking the Housatonic River Valley. Since moving to its new location and greatly expanding its educational programming, exhibition schedule, and special events, the Museum has become the most popular year-round destination in the culturally rich Berkshires of western Massachusetts.

*Illustrations and text courtesy of the Norman Rockwell Museum, Stockbridge, MA  
Laurie Norton Moffatt, Director  
Linda Szekely Pero, curator of Norman Rockwell Collections  
Special thanks to Ellen Swan Mazzer, Communications Coordinator*

**Cover Illustration:** *Outward Bound*  
*Ladies Home Journal*, October 1927  
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**Commonwealth of Massachusetts Reports on Compliance and Internal Controls in Accordance with Government Auditing Standards and the Requirements of OMB Circular A-133 and the Schedule of Expenditures of Federal Awards for the Year Ended June 30, 2004**

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**CONSTITUTIONAL OFFICERS**

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Kerry Healey  
*Lieutenant Governor*

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*Secretary of State*

Thomas F. Reilly  
*Attorney General*

Timothy P. Cahill  
*Treasurer and Receiver-General*

A. Joseph DeNucci  
*Auditor*

**LEGISLATIVE OFFICERS**

Robert E. Travaglini  
*President of the Senate*

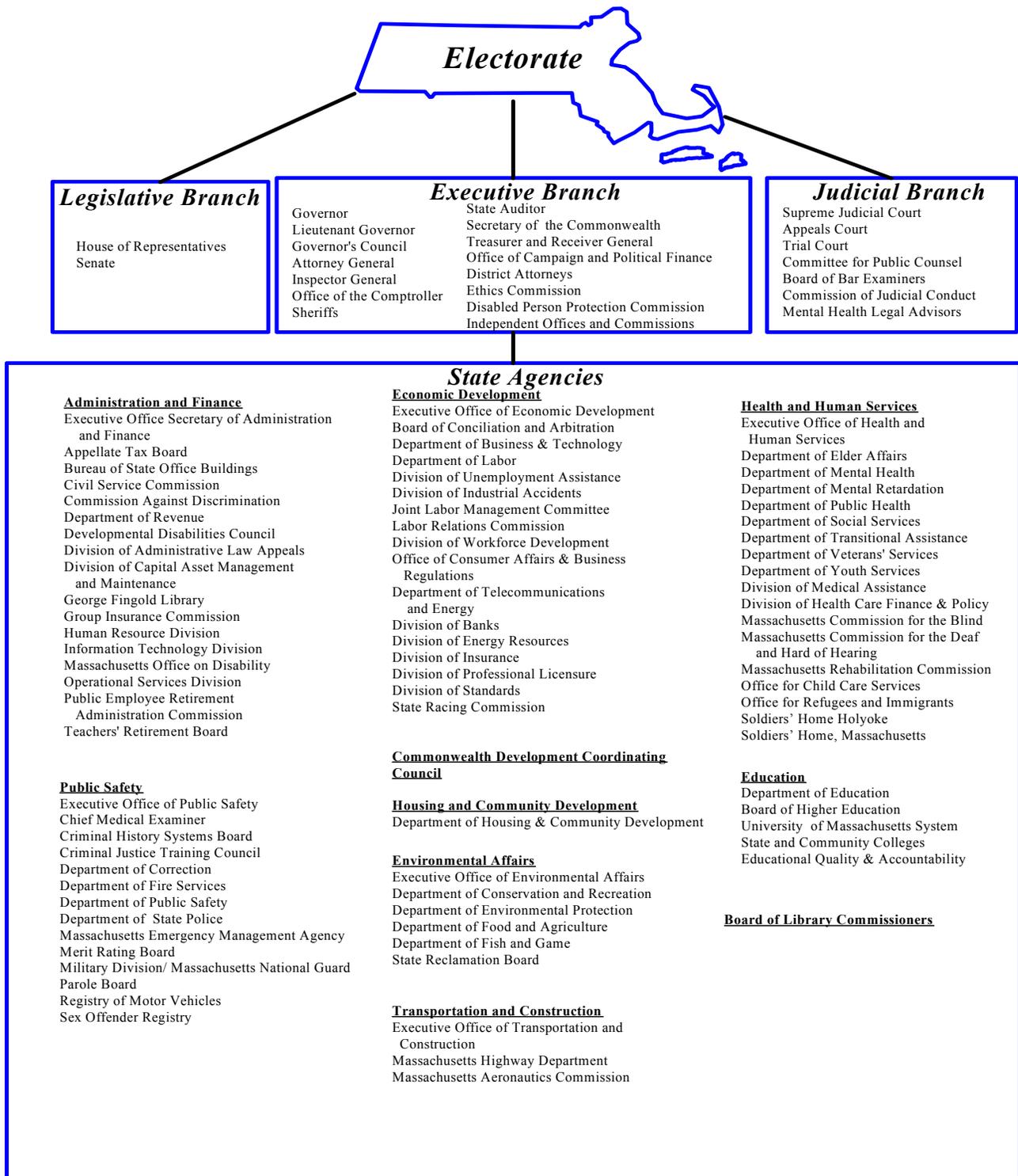
Salvatore F. DiMasi  
*Speaker of the House*

**JUDICIAL OFFICERS**

Margaret H. Marshall  
*Chief Justice, Supreme Judicial Court*

Christopher J. Armstrong  
*Chief Justice, Appeals Court*

Robert A. Mulligan  
*Chief Justice for Administration and Management, Trial Court*



*\*As of June 30, 2004*

**ADVISORY BOARD TO THE COMPTROLLER**

Eric A. Kriss (Chair)  
*Secretary for Administration and Finance*

A. Joseph DeNucci  
*Auditor*

Timothy P. Cahill  
*Treasurer and Receiver-General*

Robert A. Mulligan  
*Chief Justice for Administration and Management, Trial Court*

Thomas F. Reilly  
*Attorney General*

Thomas M. Whitney  
*Gubernatorial Appointee*

Mel Alan Barkan  
*Gubernatorial Appointee*

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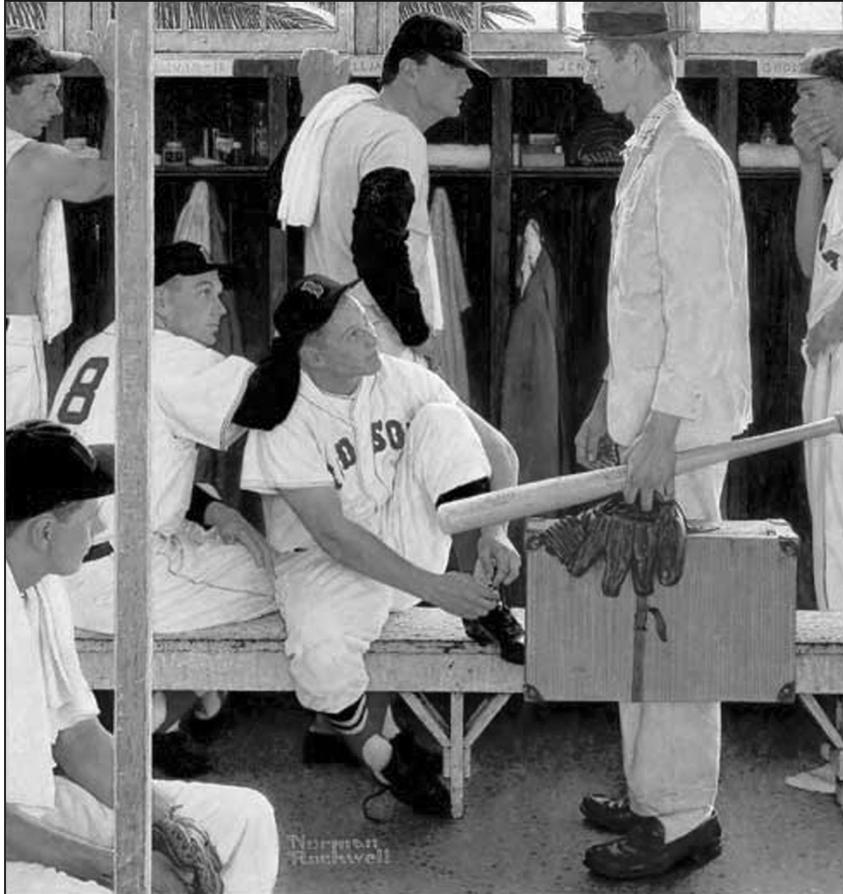
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# SECTION I

## Independent Auditors' Reports



*Red Sox Locker Room*

*Red Sox Locker Room*, Illustration for the *Saturday Evening Post*, March 2, 1957 ©1957 SEPS:  
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This was the March 2nd cover in 1957. That spring there was an article in the *Boston Herald* announcing that the Red Sox had come back home from training camp. It then went on to say this: “For a team of what training camp experts dubbed as ‘mediocre standpats,’ the 1957 Red Sox show signs of defying the league. Williams [Ted Williams] has shown unexpected spring greatness. He has shaken off the seemingly inevitable injury.”



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**Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based upon the Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

Mr. Martin Benison, Comptroller  
The Commonwealth of Massachusetts

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts ("Commonwealth") as of and for the year ended June 30, 2004, which collectively comprise the Commonwealth's basic financial statements and have issued our report thereon dated December 23, 2004. We have also audited the combined financial statements-statutory basis of the Commonwealth as of and for the year ended June 30, 2004 and have issued our report thereon dated October 31, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audits, we considered the Commonwealth's internal control over financial reporting, applicable to the internal control over financial reporting relating to the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth included within the scope of our audit as described in our reports referred to above, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation relating to the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth whose financial statements are included within the scope of our audit that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our opinion, could adversely affect the Commonwealth's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs as Findings Number 9 and 12.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Commonwealth's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, applicable to the Commonwealth for those matters relating to the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth included within the scope of our audit, as described in our reports referred to above, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Accordingly our testing of compliance did not extend to tests of compliance with laws, regulations, contracts and grants for the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth whose financial statements were audited by other auditors. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of management, the Honorable Members of the General Court and the federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

October 31, 2004

**Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards**

Mr. Martin Benison, Comptroller  
The Commonwealth of Massachusetts

**Compliance**

We have audited the compliance of the Commonwealth of Massachusetts ("Commonwealth"), for only those matters relating to compliance of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth included within the scope of our audit as described in our report on the basic financial statements dated December 23, 2004, and as further described in Note 2 to the Schedule of Expenditures of Federal Awards, with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major programs for the year ended June 30, 2004. The Commonwealth's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the management of the Commonwealth. Our responsibility is to express an opinion on the Commonwealth's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commonwealth's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Commonwealth's compliance with those requirements.

As described in Finding Number 51 in the accompanying Schedule of Findings and Questioned Costs, the Executive Office of Public Safety, did not comply with the requirements regarding Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Equipment and Real Property Management, Matching, Level of Effort, Earmarking, Period of Availability of Federal Funds, Procurement and Suspension and Debarment, Reporting, and Subrecipient Monitoring that are applicable to its Byrne Formula Grant Program. Compliance with such requirements is necessary, in our opinion, for the Executive Office of Public Safety to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the portion of the Commonwealth included within the scope of our audit, complied in all material respects, with the requirements referred to above that are applicable to each of its major programs for the year ended June 30, 2004. However, the results of our auditing procedures disclosed other instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in Part III of the accompanying Schedule of Findings and Questioned Costs which is listed as Section II in the table of contents and Section V as listed in the table of contents.

### **Internal Control over Compliance**

The management of the Commonwealth is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Commonwealth's internal control over compliance with requirements that could have a direct and material effect on a major federal program, applicable only to the internal control over compliance relating to the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth included within the scope of our audit as described in our report on the basic financial statements dated December 23, 2004, in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Commonwealth's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in Part III of the accompanying Schedule of Findings and Questioned Costs as Finding Numbers 31, 37, 38, and 62.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, based on our procedures and the report of other auditors, of the reportable conditions described in Part III of the accompanying Schedule of Findings and Questioned Costs, we consider Finding Number 51 to be a material weakness relating to the controls over the Byrne Formula Grant Program administered by the Executive Office of Public Safety.

### **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth as of and for the year ended June 30, 2004, which collectively comprise the Commonwealth's basic financial statements and have issued our report thereon dated December 23, 2004. Our audit was performed for the purpose of forming opinions on the financial statements which collectively comprise the Commonwealth's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects when considered in relation to the basic financial statements taken as a whole.

This report is intended for the information of management, the Honorable Members of the General Court and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

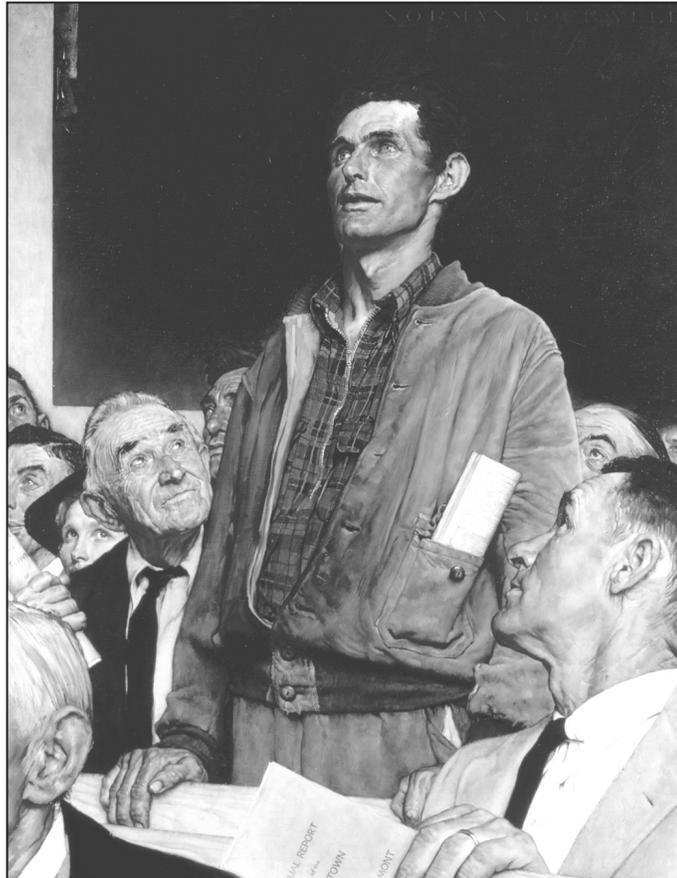
December 23, 2004



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# SECTION II

## Schedule of Findings and Questioned Costs



*Freedom of Speech*

*The Saturday Evening Post*, February 20, 1943 ©1943 SEPS: Licensed by Curtis Publishing, Indianapolis, IN.

Inspired by President Franklin D. Roosevelt's January 6, 1941 State of the Union address where he spoke of the four fundamental freedoms of all Americans: freedom from fear, freedom from want, freedom of speech, and freedom to worship, Norman Rockwell painted these *Four Freedoms*.

This illustration was the first in the series. After attending a town meeting in Arlington, Vermont, Rockwell realized that he had found the idea he needed to get started. As in so many of his pictures, Rockwell includes himself. He is the person furthest back on the left. In *Freedom of Speech*, Rockwell depicts an ordinary man, standing amongst neighbors at a town meeting and speaking his mind. Rockwell's neighbor, Jim Edgerton, served as inspiration for the figure.



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**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2004**

**I. Summary of Auditor's Results**

We have audited the financial statements of the Commonwealth of Massachusetts as of and for the year ended June 30, 2004 and have issued our reports thereon dated December 23, 2004. We conducted our audit in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and with the requirements of the *U.S. Office of Management and Budget (OMB) Circular A-133*. The results of our audit are as follows:

**Type of report issued on the financial statements:** Unqualified opinion

**Reportable conditions in internal control disclosed by the audit of the financial statements:** Yes

**Material noncompliance disclosed by the audit of the financial statements:** No

**Reportable conditions in internal control over major programs:** Yes

**Type of report issued on compliance for major programs:** Qualified opinion

**Audit findings required to be reported under Section .510(a) of OMB Circular A-133:** Yes

<b>Major Programs Funding Source</b>	<b>Program</b>	<b>CFDA No.</b>
Agriculture	Food Stamps Program	10.551(a)
Agriculture	State Admin. Matching-Food Stamps	10.561(a)
Agriculture	School Breakfast Program	10.553(b)
Agriculture	National School Lunch Program	10.555(b)
Agriculture	Special Milk Program for Children	10.556(b)
Agriculture	Summer Food Service Program	10.559(b)
Agriculture	Child & Adult Food Care Program	10.558
Justice/Homeland Security	State Domestic Preparedness Equipment Support	16.007/97.004
Justice	Juvenile Accountability Incentive Block Grants	16.523
Justice	Byrne Formula Grant Program	16.579
Labor	Unemployment Insurance Program	17.225
Labor	WIA Adult Program	17.258(c)
Labor	WIA Youth Activities	17.259(c)
Labor	WIA Dislocated Workers	17.260(c)
Transportation	Highway Planning & Construction	20.205
Education	Title I Program	84.010
Education	Special Education-State Grants	84.027(d)
Education	Special Education-Preschool Grants	84.173(d)
Education	Improving Teacher Quality – State Grants	84.367
Education	FSEOG Program	84.007(e)
Education	FFEL Program	84.032(e)
Education	Federal Work-Study Program	84.033(e)
Education	Federal Perkins Loan Program	84.038(e)
Education	Federal Pell Grant Program	84.063(e)

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2004**

**I. Summary of Auditor's Results (Continued)**

Education	Federal Direct Loan Program	84.268(e)
Health & Human Services	HEAL Program	93.108(e)
Health & Human Services	HPSL Program	93.342(e)
Health & Human Services	Nursing Student Loan Program	93.364(e)
Health & Human Services	EFNS Program	93.820(e)
Health & Human Services	Special Programs for the Aging, Title III, Part B	93.044(f)
Health & Human Services	Special Programs for the Aging, Title III, Part C	93.045(f)
Health & Human Services	Nutrition Services Incentive Program	93.053(f)
Health & Human Services	Childhood Immunization Grants	93.268
Health & Human Services	Child Support Enforcement Program	93.563
Health & Human Services	TANF Block Grant	93.558
Health & Human Services	Foster Care Program	93.658
Health & Human Services	Child Care & Development Block Grant	93.575(g)
Health & Human Services	Child Care Mandatory & Matching Funds of the Child Care & Development Fund	93.596(g)
Health & Human Services	Social Services Block Grant	93.667
Health & Human Services	State Children's Insurance Program	93.767
Health & Human Services	Medical Assistance Program	93.778(h)
Health & Human Services	State Medicaid Fraud Control Units	93.775(h)
Health & Human Services	State Survey and Certification of Health Care Providers and Suppliers	93.777(h)
Health & Human Services	SAPT Block Grant	93.959
(a) Cluster of Programs	(e) Cluster of Programs	
(b) Cluster of Programs	(f) Cluster of Programs	
(c) Cluster of Programs	(g) Cluster of Programs	
(d) Cluster of Programs	(h) Cluster of Programs	

**Dollar threshold used to distinguish Type A and Type B programs: \$30,000,000**

**Qualification of auditee as a low-risk auditee: No**

**Introduction**

The findings and recommendations detailed in Sections IV and V of this volume, and summarized in the schedule below, have been reviewed with representatives of the departments from which the observations arose and with representatives from the Office of the Comptroller. In order to assist the reader in understanding both the departmental compliance with laws and regulations and the adequacy of the internal control structure, the findings have been grouped by department and categorized as to whether they concern the department's federal program compliance or the internal control structure used in administering federal award programs. *(Part III of this Schedule)*

In addition, the findings concerning compliance with Massachusetts General Laws and on the internal control structure based on the study and evaluation of the accounting system as part of the examination of the General Purpose Financial Statements contained in the Comprehensive Annual Financial Reports (CAFR), are summarized below in Part II and detailed in Section IV.

## **Schedule of Findings and Questioned Costs For the Year Ended June 30, 2004**

### **I. Summary of Auditor's Results (Continued)**

At the end of each finding involving federal programs, detailed in Section V, is a parenthetical disclosure indicating the federal agency or agencies providing the funding for the program(s) to which the finding is applicable and the applicable Catalog of Federal Domestic Assistance number(s).

Corrective action plans and/or departmental responses to the findings and recommendations have been provided by the departments' representatives and reflect plans and responses as of December 23, 2004.

In the event a finding is repeated from the prior Single Audit report or a report prepared in prior years by other auditors performing audits of federal programs, the parenthetical disclosure at the end of the finding also indicates the year the finding first was reported, the finding number in the most recently issued prior report and, if applicable, the federal audit agency issuing the report so that the reader may cross-reference the current finding to the prior reports.

Under a cooperative agreement for the Commonwealth's Single Audit, the Office of the State Auditor, in order to provide the necessary audit coverage for the student financial assistance programs not audited by independent accounting firms and to assist in the audit of major programs, conducted the audit procedures at four Commonwealth institutions of higher education and four departments. While the findings resulting from these audits are incorporated in this report, the Office of the State Auditor will also issue its own separate reports with the results of these audits.

#### **Questioned costs as a result of the fiscal year 2004 statewide single audit**

The study and evaluation of the various departments' compliance with laws and regulations resulted in the identification of questioned costs totaling \$16,246,384. \$10,999,270 of these questioned costs are attributable to fiscal year 2003 and continue to be questioned pending completion of a federal investigation. For those instances where costs were questioned, the specific costs have been identified in findings reported on the following pages.

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2004**

**II. Findings Related to the Financial Statements**

<b><u>Reportable Conditions</u></b>	<b><u>Questioned Costs</u></b>	<b><u>Program and CFDA #</u></b>
Office of the State Treasurer use and reconciliation of the Float Fund. <i>(Finding No. 9 – Office of the State Treasurer and Office of the Comptroller)</i>	-	-
Inadequate controls over the payment of utility bills. <i>(Finding No. 12 – Roxbury Community College)</i>	-	-
<b><u>Noncompliance Findings</u></b>		
Late recording of fixed assets. <i>(Finding No. 1 - Department of Commission against Discrimination, No. 2 – Division of Capital Asset Management)</i>	-	-
Collection of accounts receivable needs improvement. <i>(Finding No. 3 – Department of Mental Retardation)</i>	-	-
Internal control over fixed assets needs improvement. <i>(Finding No. 4 – Department of Social Services, No. 7 – Office of Child Care Services)</i>	-	-
Improvements needed in the reconciliation of accounts receivable. <i>(Finding No. 5 – Soldier's Home in Holyoke, No. 13 – Springfield Technical Community College)</i>	-	-
Internal controls over travel reimbursement need improvement. <i>(Finding No. 6 – Office of Child Care Services)</i>	-	-
Recording of adjustments and uncollectibles needs enhancement. <i>(Finding No. 8 – Registry of Motor Vehicles)</i>	-	-
Internal control plan in need of improvement. <i>(Finding No. 10 – Bridgewater State College)</i>	-	-
Non-appropriated fund activity and balances not reconciled in a timely manner. <i>(Finding No. 11 – Roxbury Community College)</i>	-	-

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2004**

**II. Findings Related to the Financial Statements (continued)**

<u>Noncompliance Findings</u>	<u>Questioned Costs</u>	<u>Program and CFDA</u>
Noncompliance with Chapter 647 reporting requirements. <i>(Finding No. 14 – Worcester State College)</i>	-	-

**III. Findings and Questioned Costs for Federal Awards**

<u>Material Weaknesses</u>	<u>Questioned Costs</u>	<u>Program and CFDA #</u>
Federal investigation of Byrne Formula Grant activities. <i>(Finding No. 51 – Executive Office of Public Safety)</i>	\$10,999,270	Byrne Formula Grant Program 16.579
<u>Reportable Conditions</u>		
Controls over FamilyNet and home licensing report data need improvement. <i>(Finding No. 31 – Department of Social Services)</i>	-	Foster Care Program 93.658
The recording of aged accounts receivable needs to be reviewed in a timelier manner. <i>(Finding No. 37 – Executive Office of Health and Human Services)</i>	-	Medical Assistance Program 93.778
Procedures used in the preparation of the information for GAAP reporting purposes need to be documented. <i>(Finding No. 38 - Executive Office of Health and Human Services)</i>	-	Medical Assistance Program 93.778; State Children’s Insurance Program 93.767
Roxbury Community College administration needs improvement. <i>(Finding No. 62 – Roxbury Community College)</i>	-	Federal Pell Grant Program 84.063; Federal Work-Study Program 84.033; Federal Supplemental Educational Opportunity Grants 84.007
<u>Noncompliance Findings</u>		
Excess indirect costs not adjusted in a timely manner. <i>(Finding No. 15 – Office of the Comptroller)</i>	-	Improving Teacher Quality - State Grants 84.367; Nutrition Services Incentive Program 93.053

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2004**

**III. Findings and Questioned Costs for Federal Awards (Continued)**

<b><u>Noncompliance Findings</u></b>	<b><u>Questioned Costs</u></b>	<b><u>Program and CFDA #</u></b>
Additional costs included in statewide cost allocation plan. <i>(Finding No. 16 – Office of the Comptroller)</i>	-	Unknown federal programs
Documentation supporting the statewide cost allocation plan needs improvement. <i>(Finding No. 17 – Office of the Comptroller)</i>	-	Unknown federal programs
Inadequate supporting documentation for expenditures. <i>(Finding No. 18 – Department of Education, No. 47 - Executive Office of Public Safety)</i>	\$3,304,958	Title I Program 84.010; Special Education 84.027; Byrne Formula Grant Program 16.579; Juvenile Accountability Incentive Block Grant 16.523; State Domestic Preparedness Equipment Support 16.007/97.004
Cost allocation plan needed. <i>(Finding No. 19 – Department of Education, No. 40 – Department of Elder Affairs)</i>	-	Title I Program 84.010; Improving Teacher Quality 84.367; Child and Adult Food Care Program 10.558; National School Lunch Program 10.555; Nutrition Services Incentive Program 93.053; Senior Community Service Employment Program 17.235; Eisenhower Professional Development State Grants 84.281; Reading Excellence Act 84.338; Special Programs for the Aging, Title III, Part B 93.044; Special Programs for the Aging-Title IV and Title II, Discretionary Projects 93.048; CMS Research, Demonstrations and Evaluations 93.779; Maternal & Child Health Services Block Grants to States 93.994
Vocational education program maintenance of effort requirements not met. <i>(Finding No. 20 – Department of Education)</i>	\$1,429,789	Vocational Education 84.048

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2004**

**III. Findings and Questioned Costs for Federal Awards (Continued)**

<u>Noncompliance Findings</u>	<u>Questioned Costs</u>	<u>Program and CFDA #</u>
Reallocation of Title I funds in excess of 15% carryover and measurement of LEA cash need improvement. <i>(Finding No. 21 – Department of Education)</i>	-	Title I Program 84.010
Questionable advance to a local education agency. <i>(Finding No. 22 – Department of Education)</i>	-	Special Education 84.027
Improvements needed in the calculation of adequate yearly progress. <i>(Finding No. 23 – Department of Education)</i>	-	Title I Program 84.010
Ineffective case tracking and management system. <i>(Finding No. 24 – DOR/Division of Child Support Enforcement)</i>	-	Child Support Enforcement Program 93.563
Independent peer reviews not conducted. <i>(Finding No. 25 – Department of Public Health)</i>	-	Block Grant for Prevention and Treatment of Substance Abuse 93.959
Subrecipient identification and award documents need improvement. <i>(Finding No. 26 – Massachusetts Highway Department)</i>	-	Highway Planning and Construction 20.205
Monitoring of Davis-Bacon compliance needs improvement. <i>(Finding No. 27 – Massachusetts Highway Department)</i>	-	Highway Planning and Construction 20.205
Inaccurate recording of payroll, accrued leave and relocation expenditures. <i>(Finding No. 28 – Massachusetts Highway Department)</i>	-	Highway Planning and Construction 20.205
Timeliness of CORI checks needs improvement. <i>(Finding No. 29 – Department of Social Services)</i>	-	Foster Care Program 93.658
The process for home licensing needs improvement. <i>(Finding No. 30 – Department of Social Services)</i>	-	Foster Care Program 93.658

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2004**

**III. Findings and Questioned Costs for Federal Awards (Continued)**

<u>Noncompliance Findings</u>	<u>Questioned Costs</u>	<u>Program and CFDA #</u>
Non-compliance with legal requirements for open fair appeal hearings. <i>(Finding No. 32 – Department of Social Services)</i>	-	Foster Care Program 93.658
Improvements needed for the documentation of judicial determinations. <i>(Finding No. 33 – Department of Social Services)</i>	-	Foster Care Program 93.658
Untimely filing of plan of care and level of care documents. <i>(Finding No. 34 – Executive Office of Health and Human Services/ Department of Mental Retardation)</i>	-	Medical Assistance Program 93.778
No communication of feasible alternatives. <i>(Finding No. 35 – Executive Office of Health and Human Services/ Department of Mental Retardation)</i>	-	Medical Assistance Program 93.778
Draw downs of federal cash need better monitoring. <i>(Finding No. 36 – Executive Office of Health and Human Services, No. 52 – Executive Office of Public Safety)</i>	-	Medical Assistance Program 93.778; State Children’s Insurance Program 93.767; State Domestic Preparedness Equipment Support 16.007/97.0004
Improvements needed over reconciliations. <i>(Finding No. 39 – Department of Elder Affairs, No. 50 – Executive Office of Public Safety)</i>	-	Special Programs for the Aging, Title III, Part B 93.044; Special Programs for the Aging, Title III, Part C 93.045; Nutrition Services Incentive Program 93.053; Byrne Formula Grant Program 16.579; Juvenile Accountability Incentive Block Grant 16.523; State Domestic Preparedness Equipment Support 16.007/97.004
Monitoring of subrecipients needs to continue to improve. <i>(Finding No. 41 – Department of Elder Affairs, No. 48 - Executive Office of Public Safety)</i>	-	Special Programs for the Aging, Title III, Part B 93.044; Special Programs for the Aging, Title III, Part C 93.045; Nutrition Services Incentive Program 93.053; Byrne Formula Grant Program 16.579; Juvenile Accountability Incentive Block Grant 16.523; State Domestic Preparedness Equipment Support 16.007/97.004

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2004**

**III. Findings and Questioned Costs for Federal Awards (Continued)**

<b><u>Noncompliance Findings</u></b>	<b><u>Questioned Costs</u></b>	<b><u>Program and CFDA #</u></b>
Monitoring of audit findings relating to area agencies on aging needs improvement. <i>(Finding No. 42 – Department of Elder Affairs)</i>	-	Special Programs for the Aging, Title III, Part B 93.044; Special Programs for the Aging, Title III, Part C 93.045; Nutrition Services Incentive Program 93.053
Lack of documentation to support payroll charges. <i>(Finding No. 43 – Department of Elder Affairs)</i>	-	Special Programs for the Aging, Title III, Part B 93.044
Contract and payment vouchers not in compliance with Commonwealth policies. <i>(Finding No. 44 – Executive Office of Public Safety)</i>	-	Byrne Formula Grant Program 16.579
Salaries allocated to federally funded programs are not supported by proper documentation. <i>(Finding No. 45 – Executive Office of Public Safety)</i>	\$512,367	Byrne Formula Grant Program 16.579; Juvenile Accountability Incentive Block Grant 16.523; State Domestic Preparedness Equipment Support 16.007/97.004
Excess federal cash on hand at grantor and subrecipient levels. <i>(Finding No. 46 – Executive Office of Public Safety)</i>	-	Byrne Formula Grant Program 16.579
Payment vouchers approved after disbursement of funds. <i>(Finding No. 49 – Executive Office of Public Safety)</i>	-	Byrne Formula Grant Program 16.579; Juvenile Accountability Incentive Block Grant 16.523; State Domestic Preparedness Equipment Support 16.007/97.004
Internal controls over bill payments needs improvement. <i>(Finding No. 53 – Office of Child Care Services)</i>	-	Child Care and Development Block Grant 93.575
Food Stamps Status of Claims Against Household Report filed with inaccurate data. <i>(Finding No. 54 – Department of Transitional Assistance)</i>	-	Food Stamps Program 10.551

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2004**

**III. Findings and Questioned Costs for Federal Awards (Continued)**

<b><u>Noncompliance Findings</u></b>	<b><u>Questioned Costs</u></b>	<b><u>Program and CFDA #</u></b>
The BEACON system lacks the appropriate segregation of duties. <i>(Finding No. 55 – Department of Transitional Assistance)</i>	-	Temporary Assistance to Needy Families 93.558; Food Stamps Program 10.551
Outstanding checks need to be transferred to the Office of the State Treasurer’s unpaid check fund. <i>(Finding No. 56 – Bunker Hill Community College)</i>	-	Federal Pell Grant Program 84.063; Federal Supplemental Educational Opportunity Grants 84.007; Federal Work-Study Program 84.033
Controls needed regarding distribution of college work-study paychecks. <i>(Finding No. 57 – Bunker Hill Community College)</i>	-	Federal Work-Study Program 84.033
Fraudulent time records submitted by a student in College’s work-study program. <i>(Finding No. 58 – Bridgewater State College)</i>	-	Federal Work-Study Program 84.033
Student loan disbursement not made in required timeframe. <i>(Finding No. 59 – Bridgewater State College)</i>	-	Direct Student Loan Program 84.268
Untimely student exit counseling sessions and inadequate coordination between College departments for the administration of the Federal Perkins Loan Program. <i>(Finding No. 60 – Bridgewater State College)</i>	-	Federal Perkins Loan Program 84.038
Improvements needed in the implementation and updating of the quality assurance systems for the Direct Student Loan Program. <i>(Finding No. 61 – Bridgewater State College)</i>	-	Direct Student Loan Program 84.268
<b>Total Questioned Costs</b>	<b>\$16,246,384</b>	

# SECTION III

## Summary Schedule of Prior Audit Findings



*Freedom from Want*

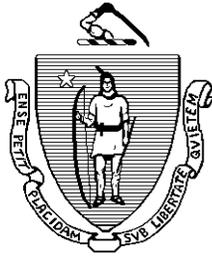
*The Saturday Evening Post*, March 6, 1943 ©1943 SEPS: Licensed by Curtis Publishing, Indianapolis, IN.

Rockwell said, “I’ll express the ideas of the **Four Freedoms** in simple, everyday scenes. . . . Take them out of the noble language of the proclamation and put them in terms that everybody can understand.”

On Thanksgiving Day, Rockwell photographed his cook presenting the turkey to his family. “She cooked it, I painted it, we ate it,” Rockwell reported. “That was one of the few times I’ve ever eaten the model.”



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Martin J. Benison  
Comptroller

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**Summary Schedule of Prior Audit Findings**

*Report on Compliance and Internal Control in Accordance with Government Auditing Standards and the Requirements of OMB Circular A-133 and the Schedule of Expenditures of Federal Awards for the Fiscal Year Ended June 30, 2004.*

The following schedule contains the finding number and title, segregated by Commonwealth department, for each of the findings included in the fiscal year 2003 (FY2003) Report. If the finding repeated as a result of the fiscal year 2004 (FY2004) audit, the current year finding is referenced after the FY2004 status of the FY2003 findings. The letters under the heading *Corrective Action* indicate the following:

- F Full (the corrective action plan was fully implemented)
- P Partial (the corrective action plan was partially implemented and the finding repeated)

**Department**

**Corrective Action**

**Division of Employment and Training**

Finding Number 1: Employers not Assessed Penalties for not Filing Required Returns F

**Department of Fire Services**

Finding Number 2: Late Recording of Fixed Assets F

**Department of Mental Retardation**

Finding Number 3: Collection of Accounts Receivable Needs Improvement P-3

The Department requested and received approval (on November 2003) from the Social Security Administration to change the representative payee from the client's guardian to the Department. An outstanding prior balance of \$ 60,557.21 exists. The Department has been collecting payment for the client since that time. The Department intends to forward this balance to one of the Commonwealth's collection agencies. If it is determined that there is no funding available to collect, the Department will consider writing off the outstanding receivable.

**Department of Public Health**

Finding Number 4: Non-Recording of Fixed Asset Transaction F

Finding Number 5: Inability to Provide Supporting Documentation for Accounts Receivable F

## Summary of Schedule of Prior Year Audit Findings

### Massachusetts Highway Department

Finding Number 6: Oversight of the Owner Controlled Insurance Program Needs to be Improved F

Finding Number 7: Late Recording of Fixed Assets F

### Department of Social Services

Finding Number 8: Internal Controls over Fixed Assets Needs Improvement P-4

Commencing immediately, all newly purchased furniture and equipment with a value exceeding \$1,000 will be recorded in the Department's inventory and tagged in accordance with Commonwealth policy.

Finding Number 9: Payroll Certifications not Completed F

### Department of Fisheries, Wildlife and Environmental Law

Finding Number 10: Late Recording of Fixed Assets F

### Massachusetts Rehabilitation Commission

Finding Number 11: Non-GAAP Fixed Asset Accounting and Reporting F

Finding Number 12: Business Continuity Plan not Implemented F

### Department of Housing and Community Development

Finding Number 13: Non-GAAP Fixed Asset Accounting and Reporting Needs Improvement F

### State Reclamation Board

Finding Number 14: Late Recording of Fixed Assets F

### Office of the State Treasurer

Finding Number 15: Debt Management Operations – Failure to Follow-up and Correct Previously Identified Internal Control Deficiencies F

### Massasoit Community College

Finding Number 16: Improvements Needed in the Reconciliation of College Records to the Commonwealth's Accounts Receivable Subsystem F

### Roxbury Community College

Finding Number 17: Non-Appropriated Fund Activity and Balances not Reconciled Monthly P-11

The College has provided the audit team with an end of year reconciliation for FY2003; however, the figures were never entered into the Massachusetts Management Accounting and Reporting System (MMARS). The College will begin the practice of quarterly reconciliation of non-appropriated funds into MMARS. Specifically, three-month intervals of financial data will be reconciled to MMARS as soon as that data (in its entirety) becomes available.

### Salem State College

Finding Number 18: Improvements Needed in the Reconciliation of College Records to the Commonwealth's Accounts Receivable System F

## Summary of Schedule of Prior Year Audit Findings

### Executive Office Of Public Safety (EOPS) /Committee on Criminal Justice

Finding Number 19: Contract and Payment Vouchers not in Compliance with Commonwealth Policies P-44

The EOPS Programs Division is no longer paying for services outside of the contract period as reported on quarterly reports. Actual contract periods are being entered onto the state accounting system to correspond with the last signature date or anticipated contract start date, whichever one is later.

Finding Number 20: Advances Made to Sub recipients F

Finding Number 21: Salaries Allocated to Federally-Funded Programs are not Supported by Proper Documentation P-45

The EOPS Programs Division developed a time allocation sheet based on budgetary amounts at the beginning of the year. In January the first review and employee monthly certification process began, so that the quarter of 1/1/04-3/31/04 will have sufficient documentation to adjust between budget estimates and actual performance.

Finding Number 22: Buyback of Leave Time for Early Retirement Charged to Federal Funds F

Finding Number 23: Management Financial Approval of Payment Vouchers after Disbursement of Funds P-49

The EOPS Programs Division started the corrective action plan (CAP) outlined in the FY2003 audit report in January of 2004. Current reimbursement requests are following the 15 step bill paying policy.

Finding Number 24: Monitoring of Subrecipients Needs Improvement P-48

The EOPS Programs Division has been making numerous financial and programmatic site visits in an honest effort to achieve the percentages set out by management. Programmatic and financial site visit reports are formulated after the visit and are recorded on agency databases.

Finding Number 25: Inadequate Supporting Documentation for Expenditures P-47

The EOPS Programs Division has increased and updated its requirements for reimbursement and supporting documentation. The agency has developed an educational tool for sub-grantees that describes the documentation required to be submitted to EOPS for reimbursement and the documentation to be maintained at the sub-grantee level for inspection during fiscal and programmatic site visits. Agency personnel will use this schedule for the next funding cycle.

Finding Number 26: Improvements Needed over Reconciliations P-50

The EOPS Programs Division will review its internal control plan and process for reconciliations and modify or create additional processes to ensure that all credits are tracked appropriately and that funds due to the Commonwealth are accounted for and credited to the appropriate funding stream.

## Summary of Schedule of Prior Year Audit Findings

### Executive Office Of Public Safety (EOPS) (continued)

Finding Number 27: Department of Justice Review and Recommendations for Corrective Action F

Finding Number 28: Federal Investigation of Byrne Formula Grant Activities P-51

The Programs Division has completed the re-organization, standard bill paying policy, and contract policy outlined in the corrective action plan. In addition, EOPS has contracted an outside auditing agency to audit up to four sub-grantees, depending on cost per audit, to evaluate policies and procedures that are weak both at the Programs Division and sub-grantee level. The result of the afore-mentioned audits will help to strengthen internal policies for administering grants and providing guidance to our sub-grantees.

### Office of the Comptroller

Finding Number 29: Additional Costs included in the Statewide Cost Allocation Plan P-16

The Office of the Comptroller has agreed to implement the recommended procedures and plans to ensure costs are allocated accurately and without duplication. The Division of Cost Allocation, the federal audit resolution agency, has accepted the resolution of this finding in correspondence dated September 21, 2004.

Finding Number 30: Documentation Supporting the Statewide Cost Allocation Agreement Needs Improvement P-17

The Office of the Comptroller has taken steps to implement new procedures and reviews for preparing the Statewide Cost Allocation Plan and its supporting documentation. The Division of Cost Allocation, the federal audit resolution agency, has accepted the resolution of this finding in correspondence dated September 21, 2004.

### Division of Medical Assistance

Finding Number 31: The Recording of Aged Accounts Receivable Needs to be Reviewed on a Timelier Basis P-37

The corrective action is in progress, on schedule and will be fully implemented by 6/30/04. FY2004 aged open receivables for calendar years 2000 through 2002 have been reviewed and submitted to the Comptroller's Office requesting write-off. The accounting unit will continue to review open receivables on a quarterly basis and submit write-off requests to the Comptroller on a timely basis.

Finding Number 32: A Report on a Service Organization's Internal Controls is Needed F

Finding Number 33: Untimely Filing of Plan of Care (POC) and Level of Care (LOC) Documents P-34

An additional software application was designed to track all waiver participants, their waiver eligibility criteria and documentation. In combination with the Electronic Individual Service Plan application and the POC application, this waiver-tracking database completes the triad that allows the Department of Mental Retardation (DMR) to track all aspects of an individual's waiver status. Although there was an extended period of development for each of these applications, all are now fully functional. In addition, during the last year a DMR staff person was assigned the responsibility of Waiver Coordinator to oversee waiver eligibility and documentation.

## Summary of Schedule of Prior Year Audit Findings

### Department of Education

Finding Number 34: Inadequate Administrative Expenditures Procedures P-18 & 19

We expect approval of our CAP this April. We have and will continue to provide in-service fiscal training to budget, procurement, and payment fiscal staff and program fiscal liaisons.

Finding Number 35: System for Charging and Adjusting Salaries to Federal Programs Needs Further Improvement F

Finding Number 36: Vocational Education Program Administration Matching and Maintenance of Effort Requirements not Met P-20

The Department has worked extensively with the Executive Office of Administrative and Finance to attempt to secure adequate state funding to meet the annual Vocational Education program administration matching and maintenance of effort requirement. Both agencies are working collectively with the House and Senate Ways & Means Committees to secure adequate funds through the budget process. The Department is also closely monitoring our Vocational Education administration funds to limit the amount for the state match.

Finding Number 37: Lack of Data to Measure Earmarking F

Finding Number 38: Maintenance of Effort System Needs Improvement F

Finding Number 39: Errors in Federal Reports F

Finding Number 40: Measurement of the Title I 15% Carryover and the Amount Reallocated Needs Improvement P-21

The current procedures for tracking Title I carryover will be reviewed and adjustments made as needed. Title I and Grants Management have discussed and agreed on new steps to ensure and document that all recipients submit final expenditure reports in a timelier manner. If it is determined that subrecipients have excess carryover, and no waiver can be granted, those funds will be reclaimed and made subject to the reallocation process no later than mid-January, following the reporting cycle.

Finding Number 41: Lack of Procedures to Assure Required Minimum Distributions are Met F

Finding Number 42: Inadequate Subrecipient Monitoring of New Program F

*continued*

## Summary of Schedule of Prior Year Audit Findings

### Department of Revenue/Division of Child Support Enforcement (CSE)

Finding Number 43: Ineffective Case Tracking and Management System

P-24

CSE added functionality to the *Commonwealth of Massachusetts Enforcement Tracking System* (COMETS), its comprehensive case tracking and management system that prompts workers to review new locations and asset information. CSE is continuing to hire additional staff for the location and establishment functions. With more than thirty new staff on board in FY2004; however, CSE is still experiencing attrition among attorney staff. All other corrective action plan elements are ongoing, including weekly monitoring of case inventories, improved coordination with the Department of Transitional Assistance on public assistance cases needing the establishment of child support orders, and outreach to the courts and the private bar on establishment and enforcement issues.

Finding Number 44: COMETS Does not Comply with Federal Requirements

F

### Department of Public Health

Finding Number 45: Incorrect Amount Reported on the PSC 272

F

Finding Number 46: The Preparation and Filing of the SF 269A Report Needs to be Streamlined

F

Finding Number 47: Untimely Issuance of Management Decisions for Subrecipient Audit Findings

F

Finding Number 48: Overspending of Penal and Correctional Facilities Earmarking Maximum

F

Finding Number 49: Medical Licenses Number not Obtained

F

### Massachusetts Highway Department (MassHighway)

Finding Number 50: Subrecipient Identification and Award Documents Need Improvement

P-26

MassHighway is using standard contract language in all subrecipient agreements. The MassHighway Planning Section manages the majority of the Department subrecipients. They continue to maintain a log of subrecipient contracts, subrecipient expenditures, and audits (date received and findings). Audits are now reviewed centrally by the MassHighway Audit Section.

Finding Number 51: Proceeds from the Sale of Federally-Funded Property not Deposited or Transferred on a Timely Basis

F

### Department of Social Services (DSS)

Finding Number 52: Timeliness of CORI Checks Needs Improvement

P-29

DSS management will continue to emphasize the importance of completing timely criminal background checks on foster care providers and fully utilize the FamilyNet system to inform Family Resource staff and the Central CORI Unit of checks that need to be performed.

*continued*

## Summary of Schedule of Prior Year Audit Findings

### Department of Social Services (DSS) (continued)

Finding Number 53: The Process for Home Licensing Needs Improvement P-30

Representatives from the Field Operations Division will work with other DSS staff in designing and developing a status report of foster home licenses, by area office. The report will provide an analysis of the timeliness of license reviews completed, as well as any that may remain outstanding.

Finding Number 54: Controls over FamilyNet and Home Licensing Report Data Need Improvement P-31

Representatives from the Field Operations Division will work with other DSS staff in designing and developing a status report of foster home licenses, by area office. The report will provide an analysis of the timeliness of license reviews completed, as well as any that may remain outstanding.

### Executive Office of Elder Affairs

Finding Number 55: Federal Reports were not Reconciled with the Commonwealth's Accounting System P-39

With the introduction of the new accounting system on July 1, 2004, all transactions now require coding that distinguishes the specific federal grant, the grant year to be charged, and the purpose of the activity for which the expenditure is made. Elder Affairs has implemented these codes and is now able to separate allocations and expenditures by grant award. At the present time, Elder Affairs believes it has met the standard.

Finding Number 56: Federal Reports Compiled from Provider Information not Area Agency on Aging Information F

Finding Number 57: Indirect Cost Plans not Finalized F

Finding Number 58: Lack of Documentation to Support Period of Availability Requirements F

Finding Number 59: Monitoring of Area Agencies on Aging Needs to Continue to Improve P-41

The reviews on Area Agencies on Aging (AAA) are nearly complete. The standards document will be issued to AAAs by the end of March. The Title III unit will begin on-site monitoring visits in early April 2004, and will complete on-site monitoring reviews of at least six AAAs by June 30, 2004.

Finding Number 60: Monitoring of Audit Findings Relating to Area Agency on Aging Needs Improvement P-42

Elder Affairs is developing an audit review and resolution system that will have specific requirements for timely reviews of Area Agency audits, follow-up of corrective action plans, and issuances of management decisions.

*continued*

## Summary of Schedule of Prior Year Audit Findings

### Department of Transitional Assistance

Finding Number 61: Food Stamps Status of Claims Against Household Report Filed with Inaccurate Data P-54

The FNS 209 reports for the first quarter of FY2004 and the fourth quarter of FY2003 were reconciled to the *Benefit Eligibility and Control On-line Network* (BEACON). The recovery unit continues to work on providing accounting reports that will facilitate the reconciliation process. A revised BEACON monthly activity report was submitted for programming.

Finding Number 62: Failure to Provide Necessary TANF Case File Verification Forms F

Finding Number 63: The BEACON System Lacks the Appropriate Segregation of Duties F

Finding Number 64: TANF Benefit Overpayment F

Finding Number 65: Failure to Perform Federal Tax Information Match F

### Quinsigamond Community College

Finding Number 66: Outstanding Checks Need to be transferred to the Office of the State Treasurer's Unclaimed Check Fund or the Federal Grantee F

### Roxbury Community College

Finding Number 67: Roxbury Community College Administration Needs Improvement P-62

The College will continue to implement administrative improvements. Improvements will be continually monitored and reviewed by an internal task force of employees. The overall improvement of student financial aid administration has been identified as a major priority and will remain a priority for future years.

Finding Number 68: Students Inappropriately Awarded Pell Grants without a Documented High School Diploma or Equivalent

# SECTION IV

## Findings on Compliance and Reportable Conditions Pertaining to Internal Control Structure Based on the Audit or the Financial Statements



*Freedom to Worship*

*The Saturday Evening Post*, February 27, 1943 ©1943 SEPS: Licensed by Curtis Publishing, Indianapolis, IN.

In *Freedom to Worship*, Rockwell departs from his established storytelling style and illustrates in close-up profile a group of praying men and women, lit by a soft, golden light.

The monochromatic color scheme of this painting enabled Rockwell to minimize the differences between people of various racial and ethnic backgrounds.



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# Massachusetts Commission Against Discrimination Findings on Compliance with Rules and Regulations

## Finding Number 1: Late Recording Of Fixed Assets

The Massachusetts Commission Against Discrimination (Commission) did not record a fixed asset onto the Massachusetts Management Accounting and Reporting System (MMARS), the Commonwealth's central accounting system, in a timely manner. The Commission purchased a computerized case management system that was brought on line in fiscal year 2001, at a cost of \$975,805. However, the asset was not recorded into the MMARS fixed asset subsystem until December 8, 2003. On March 19, 2004, the entry was modified to more properly reflect the cost of the asset, removing the cost of maintenance, which was improperly included in the original entry. Delay in entering was an administrative oversight brought to the Commission's attention by the State Auditor's Office (OSA).

The MMARS Fixed Asset System User Guide issued by the Office of the Comptroller (OSC) requires assets valued at \$50,000 or more to:

*Be recorded into the system within seven (7) days of acquisition to properly account for and record those items owned by the Commonwealth... to allow them to be incorporated into the Commonwealth's Comprehensive Annual Financial Report.*

Furthermore, the OSC's Generally Accepted Accounting Principles (GAAP) instructions state that all fixed assets must be posted by June 30th. Not recording assets in a timely and correct manner could understate the value of fixed assets on the MMARS system and in the annual financial report.

### Recommendation

The Commission should monitor all fixed asset purchases to ensure the recording of fixed assets valued at \$50,000 or more into the MMARS Fixed Asset System within seven days of acquisition, as required by the MMARS Fixed Asset System User Guide.

### Department Corrective Action Plan

The Central Business Office (CBO) was established in July 1996 and dissolved in June 2003. CBO was responsible for all of the Commission's administrative duties. The Case Management System was purchased while CBO existed and the Commission should not be responsible for the reporting. When OSA brought this administrative oversight to the Commission's attention in December 2003, we took immediate action and recorded the fixed asset onto MMARS. We are well versed with MMARS and all its aspects. In the future all fixed assets will be reviewed to ensure assets over \$50,000 are properly recorded each year.

Responsible Person: Melanie Louie

Implementation Date: 12/8/2003

## **Division of Capital Asset Management Findings on Compliance with Rules and Regulations**

### **Finding Number 2: Late Recording of Fixed Assets**

The Division of Capital Asset Management (Division) did not record a fixed asset into the Massachusetts Management Accounting and Reporting System (MMARS), the Commonwealth's central accounting system, within the required seven (7) days. The Division's Project Manager issued a letter on February 4, 2004 stating that the Certificate for Use and Occupancy for the New Learning Resource Center at Quinsigamond Community College was issued with an effective date of December 18, 2003. The asset was transferred from Construction in Process to Fixed Asset via an FT that was recorded on February 27, 2004.

The MMARS Fixed Asset System User Guide issued by the Office of the Comptroller (OSC) requires assets valued at \$50,000 or more to:

*Be recorded into the system within seven (7) days of acquisition... to properly account for and record those items owned by the Commonwealth... to allow them to be incorporated into the Commonwealth's Comprehensive Annual Financial Report.*

### **Recommendation**

The division should monitor all project completions to ensure the recording of fixed assets valued at \$50,000 or more into the MMARS fixed asset system within the required seven (7) days.

### **Department Corrective Action Plan**

The Fixed Asset Unit of the Division of Capital Asset Management will work with the primary office in charge of construction management, the Office of Programming, Design and Construction (OPDC), to ensure future E-1 Certificates of Use/Occupancy for the entire building that are prepared and issued for assets over \$50,000 will be distributed internally within two days. Progress schedules will be reviewed quarterly to determine the completion progress of projects. This will enable the Fixed Asset Unit to enter the transaction into the MMARS system within the period stated in the MMARS Fixed Asset System User Guides. The current "Classic MMARS" transaction is an FT.

Responsible Person: William J. Tivnan

Implementation Date: November 1, 2004

## Department of Mental Retardation Findings on Compliance with Rules and Regulations

### Finding Number 3: Collection of Accounts Receivable Needs Improvement

The fiscal year 2003 single audit report disclosed that the Department of Mental Retardation (Department) needed to improve its collection of accounts receivable. The audit noted a past due balance of \$54,909 for room and board for a Department resident. We recommended that if the Department deemed the receivable uncollectible, it should be written off. As of June 16, 2004, the account receivable totaled \$60,557, an increase of \$5,648 since July 23, 2003.

Department officials stated that they have enhanced their efforts to collect outstanding amounts for room, board and care charges. The Department also requested and received approval from the Social Security Administration to change the representative payee from the client's guardian to the Department in order to collect room and board. They also stated that it is not their policy to write off outstanding charges for room, board, and care receivables while the client is alive.

The Department has drafted policies and procedures for collection of past due amounts owed by deceased residents; however, these policies do not comply with 815 Code of Massachusetts Regulations (CMR) 9.00, *Debt Collection Regulations*, which requires that accounts receivable that are 120 days past due be assigned to the Office of the Comptroller (OSC) for intercept. They also do not comply with OSC's Policy Memorandum #318, dated January 14, 2002, *Update on Recent Modifications to Debt Collections and Accounts Receivable Policies*, which allows debts to be sent simultaneously to both intercept and to a debt collection agency.

Despite the regulation and the policy memorandum, the Department continues to maintain an open account receivable that dates back to 1995. Department personnel state that they could potentially receive payments from the resident's estate upon the death of the resident. They have had trouble in reinstating balances that have been previously written off because there is no systematic method to track and reinstate an account receivable that has been previously written off.

The Code of Massachusetts Regulation (CMR) 815, 9.05 (1) Collection of Debts states in part that:

*The Departments are responsible for making diligent efforts to collect legislatively authorized accounts receivable and debts due the state. Departments shall maintain detailed records for all accounts receivable, debts and other legislatively authorized charges for goods or services.*

Further, paragraph (2)(d) states in part:

*Dunning Notices if the initial bill is not paid in full by the debtor by the payment due date, and the debt has not been disputed by the debtor, a Department must demonstrate diligent efforts to collect the debt. Diligent effort shall include at a minimum ...three written billing and dunning notices in addition to the initial billing, a final notice as follows:*

*01 days past due dunning notice;  
30 days past due dunning notice;  
60 days past due dunning notice;  
90 days past due final notice.*

In addition, section 9.06, Intercept of Debt by Office of the Comptroller, paragraph 3, *Suspension of Collection Efforts for Disputed Debts* states in part:

*Unsuspected debts processed through the state accounting system will automatically be assigned to the Office of the Comptroller for intercept when the debt is 120 days past due.*

## **Department of Mental Retardation Findings on Compliance with Rules and Regulations**

### **Finding Number 3: Collection of Accounts Receivable Needs Improvement (continued)**

The Department's internal control manual Chapter 4, subsection B, Accounts Receivable/Control Activities requires the *"follow-up of aged receivables along with an aggressive collection policy should be a management priority"*.

Not complying with its own internal control policy, CMRs, and OSC's policies and procedures regarding the collection of accounts receivable could result in the Commonwealth not receiving the income it is entitled to. *(Fiscal Year 2003 Report Finding 3)*

#### **Recommendation**

The Department should comply with its own internal control policy, CMRs, and OSC policies and procedures regarding the collection of charges for room, board, and care charges and diligently and aggressively pursue the collection of balances due from all residents. If a past due balance is deemed uncollectible, the Department should assign the account to OSC to implement intercept procedures and utilize a debt collection agency to collect amounts owed in accordance with 815 CMR 9.00 Debt Collection Regulations.

#### **Department Corrective Action Plan**

The Department has worked hard to pursue and collect charges for care from its clients. The result has been that the collection rate on current charges is almost at 100 percent. However, the Department recognizes that there are outstanding balances of over \$10,000 on 17 client accounts for a total of less than \$500,000. To address these balances, the Department is in the process of updating its charges for care manual. Within that manual will be instructions regarding sending outstanding receivables to collection agencies. The Department will then meet with collection agencies to select a vendor or two and will aggressively pursue collection on this outstanding debt. If these amounts are deemed uncollectible by the collection agencies, the Department will then have to determine whether to forward them to the Comptroller for write-off.

Responsible person: Jeanette Maillet, CFO  
Implementation date: March 1, 2005

## **Department of Social Services Findings on Compliance with Rules and Regulations**

### **Finding Number 4: Internal Controls over Fixed Assets Need Improvement**

The fiscal year 2003 single audit report noted that the Department of Social Services (Department) was not in compliance with Office of the Comptroller (OSC) requirements for accounting, reconciling, reporting, and recording of fixed assets. The current audit disclosed that the Department's Non-GAAP fixed asset listing as of June 30, 2004, totaling \$4,958,269, did not include all Department fixed assets and was not updated for fiscal year 2004 purchases. In addition, fixed assets other than newly purchased computer equipment lack a permanent individual state property control identification tag number. An annual physical inventory and reconciliation of inventory records was also not completed, which does not comply with OSC's requirements.

The Department maintains GAAP fixed assets on the MMARS fixed asset system. The Non-GAAP fixed asset listing maintained by the Department, which includes computer equipment, laptop computers, and cameras, does not include any furniture inventory such as desks and file cabinets. As reported in the fiscal year 2003 single audit finding, Department personnel stated emphasis was placed on computer equipment and GAAP assets since furniture was deemed of little value and few new furniture purchases were made in the last several years.

During fiscal year 2004, the Department purchased new computer equipment for the entire Department including inventory-tracking software. This new computer equipment is tagged with an individual property control tag and properly recorded in compliance with OSC's requirements on a separate inventory database listing totaling \$2,704,889. The Department's Non-GAAP inventory listing now also includes the dates of acquisition and funding source fields as required by OSC's requirements and was adjusted for fiscal year 2004 inventory write-offs.

We selected ten items for review to verify the existence of the asset, location, and proper recording. One item (a laptop computer) selected from the old inventory list was located in the possession of an individual different than the individual assigned on the listing. Five items reviewed, including two laptop computers purchased, a fax, and two printers were not properly tagged.

Department personnel are in the process of discussing procedures, which includes discussions with the OSC, to cost-effectively complete the inventory tagging and recording of all fixed assets at area offices. The Massachusetts Management Accounting and Reporting System (MMARS) Fixed Asset Subsystem User Guide sets forth the following policies, which state in part:

#### ***Chapter 4, Recording Including Depreciation, Policy Number 4-5:***

*Tagging of Assets - Physical property other than land, buildings and infrastructure shall be marked with some type of permanent tag affixed to a readily available area of the asset. This tag must have a unique identification number that will be associated with that asset and become a part of the asset's permanent record.*

#### ***Chapter 5, Accounting and Management, Policy Numbers 5-5 and 5-6:***

*Fixed Asset Inventory - There shall be an annual inventory taken of fixed assets owned by every Department. This inventory shall include at a minimum a verification of the existence and location of fixed assets owned by a Department. This inventory shall be done on or about June 30th of each year for GAAP & non-GAAP assets.*

## Department of Social Services Findings on Compliance with Rules and Regulations

### **Finding Number 4: Internal Controls over Fixed Assets Need Improvement (continued)**

*Reconciliation - There shall be a reconciliation of the fixed assets inventory against the books and records maintained by the Department, either on the Fixed Asset Subsystem or other documented methods. This reconciliation is to be done, at a minimum, on an annual basis.*

#### **Chapter 6, Reporting, Policy Number 6-3:**

*Non-GAAP Fixed Assets - Departments must maintain an inventory of these assets either on the Fixed Asset Subsystem in MMARS or on an in-house system.*

By not maintaining proper controls over fixed assets, there is no assurance that property and equipment is adequately safeguarded against loss, theft, or misuse. (*Fiscal Year 2003 Report Finding 8*)

### **Recommendation**

The Department should establish controls to ensure that its fixed assets are properly safeguarded, valued, and reported on an ongoing basis and that they are in compliance with the MMARS Fixed Asset User Guide. These controls should include the maintenance of a cumulative fixed assets listing. All fixed assets should also be properly tagged with an individual property identification number in compliance with OSC's requirements.

### **Department Corrective Action Plan**

The Department of Social Services (DSS) will post a new position and hire an additional staff person to further support the Department's facility operations. This person will assume responsibility for developing, implementing, and maintaining fixed assets/inventory controls statewide at DSS. In addition to appropriately staffing this function, DSS will complete the following steps.

- A baseline inventory of all existing fixed assets in all DSS offices will be compiled no later than the end of this calendar year.
- The inventory database will be updated to include this baseline data.
- Inventory tags will be obtained and applied to all new assets procured after July 1, 2004.
- A process will be developed and documented that requires Area, Regional and Central Office staff to report newly procured assets. These updates will be submitted to the Inventory Manager at Central Office for entry into the database.
- A process will be developed and documented that allows for the removal of unusable items from the inventory. Prior to removal from the inventory, the appropriate form will be submitted to the Operational Service Division (OSD) for disposal approval. Upon receipt of OSD approval, items will be disposed of in accordance with OSD policy and items will be removed from the inventory. Upon receipt of OSD approval, the necessary arrangements for the disposal of unusable items will be made by the Area Administrative Manager.
- During each future fiscal year, the inventory for each site will be reviewed and reconciled with the inventory database.

Responsible person: MaryEllen Bennard  
Implementation date: March 31, 2005

## **Soldiers' Home in Holyoke Findings on Compliance with Rules and Regulations**

### **Finding Number 5: Improvements Needed in the Reconciliation of Soldiers' Home Records to the Commonwealth's Accounts Receivable System**

The Soldiers' Home in Holyoke (Home) was not adequately posting monthly transactions and performing monthly reconciliations between the Home's records and the Massachusetts Management Accounting and Reporting System (MMARS) for its Medicare Accounts Receivables.

Our testing involved a review of a Receivable Income (RI) transaction totaling \$484,623, which was an adjustment to its MMARS summary accounts receivable balance. RI transactions are used to record increases in the receivable amount for new services, claims, etc., or to record errors resulting in increases. Home officials stated that the purpose of the adjustment was to enter an accumulation of unpaid Medicare charges for the period August 1, 1998 through April 30, 2003. These charges were an accumulation of posting errors and adjustments within the Home's in-house billing and accounts receivable system. The adjustment was made on May 20, 2003. This entry was made because the Home's staff did not fully utilize the Home's computer system and the staff was not familiar with the MMARS summary reporting requirements. Home management indicated that this adjustment brought MMARS into balance with the Home's system.

After this adjusting entry, the Home began entering monthly data into MMARS for the period July 2003 through June 2004. These monthly entries, however were not in compliance with State Comptroller's (OSC) reporting requirements. While the documentation to support this MMARS transaction was in order, a review of the FY2004 activity disclosed that monthly RI postings were made simultaneous to the postings of CT transactions for the same amount each month. CT transactions are used to record cash collections, which reduce the summary receivable. Postings of an RI would reflect the total additional billings and billing adjustments that occurred during a given month. The likelihood of revenue collections during the same month being the same as the billings is remote.

When the Director of Finance became aware of this matter, he took immediate steps to adjust MMARS to accurately reflect the Home's accounts receivable records as of June 30, 2004. This was done by entering an RI into MMARS on July 9, 2004 for \$386,307, along with an RD transaction on July 12, 2004 for \$58,071. RD transactions are used to record decreases in the receivable amount, record errors resulting in decreases or other downward adjustments to the amount resulting from disallowances. These two entries brought the cumulative MMARS Accounts Receivable in balance with the Home's accounts receivable system records as of June 30, 2004.

The Home is required to comply with MMARS, a statewide, centralized subsystem utilized for billing and collections. Full accounting, recording, and reporting of earned revenue/accounts receivable due to the Commonwealth is accomplished by utilizing MMARS. The Commonwealth of Massachusetts Comptroller Policy Memo #315 entitled OSC Policy on Reporting of Earned Revenue/Accounts Receivable states in part:

- *Departments are required to use MMARS, to report all earned revenue/accounts receivable activity either in detail or summary fashion.*
- *Departments with an OSC approved delegated accounts receivable system may continue to post summary receivables on MMARS, but must do so in accordance with this updated guidance. During this fiscal year, OSC will begin to review all delegated accounts receivable systems to ensure compliance with accounting standards.*

## **Soldiers' Home in Holyoke Findings on Compliance with Rules and Regulations**

### **Finding Number 5: Improvements Needed in the Reconciliation of Soldiers' Home Records to the Commonwealth's Accounts Receivable System (continued)**

Regarding summary reporting, Memo #315 also states:

- **Summary Reporting**

*Departments are required to utilize MMARS to maintain one summary receivable, across fiscal years, that accurately represents the net value of the Earned Revenue/Accounts Receivable by revenue source code. When recording earned revenue/receivables at a summary level on MMARS, departments are required to maintain their approved delegated accounts receivable system at a sufficient level of detail to verify the accuracy of summary reporting. By the close of each accounting period it is a requirement that the summary receivable amount be adjusted by the department. Adjustments that are currently supported by MMARS transactions are:*

- *Cash collections which reduce the summary receivable (CT)*
- *Increases in the receivable amount for new services, claims, etc. for the month or to record errors resulting in increases (RI)*
- *Decreases in the receivable amount to record errors resulting in decreases or other downward adjustments to the amount resulting from disallowances (RD)*
- *Uncollectible amounts approved by the OSC for write-off (WO).*

Monthly postings to MMARS should be accurate and reflect the monthly activity on the Home's accounts receivable records. Without timely reconciliations, the Home cannot be assured that receivables are accurately reflected and the collection process could be impaired.

#### **Recommendation**

The Home should implement adequate internal control procedures to ensure that accurate monthly postings of accounts receivables be made to MMARS and would include a monthly reconciliation to MMARS, as required by OSC policies and procedures.

#### **Department Corrective Action Plan**

Due to an accounting oversight, the Soldiers' Home in Holyoke incorrectly processed Medicare RIs during fiscal year 2004. Billing figures listed on Medicare RIs were actually numbers included on Medicare CTs. (In essence, a monthly receivable never existed, as the amount collected and reported on the CT was the same amount reported on the RI.) Consequently, this error caused the Medicare receivable figure to be understated, in summary fashion on MMARS, for the period of July 2003 through June 2004.

While the number was incorrectly reported in summary fashion on MMARS, at no time was the figure incorrectly stated on the Soldiers' Home in Holyoke's internal, detailed accounts receivable report. The detailed billing and accounts receivable report, contained within the American Healthcare (AHC) billing software system, was correctly and consistently maintained.

Upon preparing our fiscal year 2004 GAAP report, the Soldiers' Home in Holyoke's Accountant recognized that the amounts reported in MMARS and those listed in AHC did not reconcile. Adjusting RI/RD entries were made to correct this issue and the proper receivable amount was listed on the 286F report submitted with the Soldiers' Home's 2004 GAAP Reporting Transmittal.

## **Soldiers' Home in Holyoke Findings on Compliance with Rules and Regulations**

### **Finding Number 5: Improvements Needed in the Reconciliation of Soldiers' Home Records to the Commonwealth's Accounts Receivable System (continued)**

#### **Department Corrective Action Plan (continued)**

The Soldiers' Home asserts that this oversight occurred as a result of the Accountant's involvement with NewMMARS. Before the start of fiscal year 2004, the Soldiers' Home in Holyoke's Accountant reconciled AHC reports to MMARS on a monthly basis. Because the Accountant was assigned the task of serving as the Home's NewMMARS Liaison, this reconciliation duty was overlooked.

In conclusion, the Soldiers' Home in Holyoke has corrected this oversight by reassigning this duty to the Soldiers' Home in Holyoke's Program Coordinator, with oversight from the Accountant and CFO. As a result, I can affirm that monthly reconciliations are occurring and that Medicare receivables (as well as receivables attributable to other revenue sources) are correctly reported onto MMARS.

Responsible person: Anthony R. DiStefano, Director of Finance, Soldiers' Home in Holyoke  
Implementation date: August 1, 2004

## Office of Child Care Services Findings on Compliance with Rules and Regulations

### Finding Number 6: Internal Controls over Travel Reimbursement Need Improvement

The Office of Child Care Services (Office) is not in compliance with the Office of the Comptroller's (OSC) requirements regarding travel reimbursements. Specifically, the Office's internal controls do not address the timely submission of travel reimbursement requests and do not include review for excessive spending.

Our review of all employee out-of-state travel vouchers for fiscal year 2004 disclosed that three out of ten employees had not submitted their requests for reimbursement within 30 days. As of June 30, 2004, travel reimbursement requests for trips taken in February, March, and May had not been submitted. Additionally, a review of 16 of the 65 in-state travel records for the month of April disclosed that 14 travel vouchers were not submitted within the 30-day requirement (4 vouchers in June, 8 vouchers in July and 2 vouchers in August).

The OSC Policy Memo #216 requires that agencies account for their travel expenditure on a monthly basis as follows:

*Departmental internal controls should be established to ensure monthly accounting of travel reimbursements. Implementation of stricter departmental internal controls for travel would eliminate the need for travel related deficiency payments. As a minimum, these controls should include:*

- *Establishment of encumbrances to cover anticipated travel expenses.*
- *Submission of completed travel vouchers with receipts within 30 days of completion of in-state or out-of-state travel.*
- *Employee's claim for reimbursement must be countersigned and certified for accuracy by the employee's supervisor/manager.*
- *Authorization for out-of-state travel must be in writing.*

Our review also disclosed that one contractor had taken a limousine roundtrip to the airport rather than utilizing a more cost effective mode of transportation. The limousine cost \$90.24 each way. We contacted two local taxicab companies in the same town and determined that the rates to and from the airport would have been \$48.00 and \$60.00. This would have resulted in a savings of 47% and 34% respectively. The Office does not have a procedure in place to review travel vouchers before payment to ensure that public funds are expended economically.

Sound business judgment requires that employees utilize the most cost effective method of travel. Further, without requiring its employees to submit their travel vouchers within 30 days of travel, the monthly budget to actual expenditure report prepared for the Office Budget Director does not reflect the most up-to-date travel expenditures. Inaccurate accounting and travel budget information hinders management from making informed decisions.

### Recommendation

The Office should establish and implement adequate internal controls over the travel reimbursement process that requires employees to submit travel vouchers in a timely manner. The Office should also establish policies and procedures requiring the review of travel vouchers and all expenditures for employee reimbursement before payment to ensure that amounts are not excessive.

**Office of Child Care Services  
Findings on Compliance with Rules and Regulations**

**Finding Number 6: Internal Controls over Travel Reimbursement Need Improvement (continued)**

**Department Corrective Action Plan**

The Office of Child Care Services (Office) will include in its internal controls the requirements around travel reimbursement as outlined in the Office of the Comptroller policies, requiring travel reimbursement to be paid within 30 days of travel. The Office's internal controls will be clarified and updated to strengthen the requirement to submit travel vouchers for reimbursement within 30 days after completion of travel. In addition, the Office's internal controls regarding travel have been updated to include a requirement to obtain three estimates for lodging and flight when submitting the travel request voucher (TRV), ensuring that public funds are expended economically. The Office is planning to provide detailed training to managers and supervisors to help them understand, follow, and enforce all the internal controls established for the travel request and reimbursement processes. Assigned Office senior staff will perform a quarterly review of randomly selected travel reimbursements. Jan Avallone, Chief Financial Officer /Internal Control Officer is responsible for the management of this process. The implementation date for the written update of the internal controls is immediately and the training of management and the quarterly internal audit process will be implemented by February 1, 2005, allowing the new controls to be communicated to all staff and in place for testing/internal audit. Please note: union discussions with EOHHS may be required before implementing the 30-day requirement.

Responsible person: Jan Avallone, CFO  
Implementation date: February 1, 2005

## Office of Child Care Services Findings on Compliance with Rules and Regulations

### **Finding Number 7: Internal Controls over Inventory/Fixed Assets Need to be Improved**

The Office of Child Care Services (Office) is not in compliance with the Office of the Comptroller's (OSC) requirements for the accounting, reconciling, reporting and recording of fixed assets; Operational Services Division (OSD) requirements for the transfer and receipt of surplus property; or their own internal policies and procedures regarding inventory, fixed assets and surplus property. Our review noted that the Office neither performed an inventory nor tagged all fixed assets in their possession.

Of the 526 items listed on the Office's fixed asset report, dated May 3, 2004, 63 Modular Office Setups (Desk, Pedestals, and Hutch) and 68 telephones were listed on the report; however, the list did not include inventory tag numbers, cost of the asset, or the date acquired.

We physically inspected the 63 modular office setups and found the Division of Medical Assistance (DMA) inventory tags on them. The telephones were also listed on the report as DMA owned and had no inventory tags. In January of 2004, the Office relocated its offices to a location that was previously occupied by DMA. The relocation was due to reorganization within the Executive Office of Health and Human Services (EOHHS). The modular setups were originally purchased by DMA and left for the Office to use.

The OSC fiscal year 2004 Closing Instructions Section 9 requires fixed assets to be accounted for as follows:

*Fixed Assets - Departments that own fixed assets are responsible for recording all acquisitions, betterments, changes, transfers, and disposition of GAAP fixed assets and for a physical inventory of non-GAAP fixed asset.*

Also, the OSC's Internal Control Guide for Departments, Volume II, Chapter Three, Department Control Activities, Fixed Assets, states in part:

*Departments are required to properly account for all fixed asset transactions, including the proper recording and the reconciliation of a periodic inventory of all fixed assets. This physical reconciliation should be completed as of June 30th of each fiscal year.*

OSD regulation, 802 CMR: Purchasing Agent's Division, Section 306 (4)(a) Transfer to Another State Agency, paragraph 1, requires transfers of fixed assets to be accounted for by the receiving agency as follows:

- a) *contacts the donor agency to arrange an appointment to inspect the property as to its condition and usefulness. B. requests authorization from the State Surplus Property Officer to transfer the items if they meet the agency's needs. If the transfer is approved, the State Surplus Property Officer advises the receiving and donor agencies by letter.*
- b) *arranges to transport the property to its location.*
- c) *picks up the property and presents a copy of the authorization to the donor agency and initials the receipt beside each item listed.*
- d) *acknowledges receipt by sending a copy to State Surplus Property Officer within 30 days.*
- e) *adjusts inventory and tag items within 10 calendar days.*

## Office of Child Care Services Findings on Compliance with Rules and Regulations

### Finding Number 7: Internal Controls over Inventory/Fixed Assets Need to be Improved (continued)

Paragraph 2, states Donor Agency:

- a) allows receiving agencies to inspect surplus items.
- b) receives a copy of the transfer authorization.
- c) receives a letter from the State Surplus Property Officer;
- d) records information from the transfer authorization letter on to inventory records;
- e) has representatives of the receiving agency sign a copy of the transfer authorization letter as proof of transfer within 10 calendar days of the transfer.
- f) acknowledges the transfer by sending of the signed transfer authorization letter to the State Surplus Property Officer within 30 days.

The Section 10 of the Office's Internal Controls Administrative and Finance Policies and Procedures Manual states:

*Inventory, Fixed Assets and Surplus Property - OCCS' objectives are to ensure that supplies, equipment and materials are safeguarded against theft and loss, inventory records are accurate and complete and state regulations for recording and managing state property are followed.*

Without proper internal controls over fixed assets, there is no assurance that property and equipment is adequately safeguarded against loss, theft, or misuse.

The Office stated that they have been unable to get clarification from DMA regarding who is responsible for these assets. On May 3, 2004, the Office conducted their annual inventory. On May 7, 2004, the Director of Accounting contacted the DMA to get a clarification on the items marked DMA. On August 18, 2004, the Office received notice from the EOHHS Services that the items in question are owned by DMA and on loan to the Office.

### Recommendation

The Office should implement internal controls to ensure compliance with the requirements of OSC, OSD, and their own internal control procedures. These controls should include performing an annual inventory, tagging and recording and the proper accounting and receipt of all fixed assets transferred from other state agencies. The EOHHS should properly record and account for all fixed asset transfers from one division to another and maintain a complete accounting of all division fixed assets if they intend to control fixed assets for all of their divisions.

### Department Corrective Action Plan

The Office of Child Care Services is in the process of strengthening its inventory and fixed asset policies regarding transferred and loaned property. The Office's recent relocation of its offices contributed to the inventory finding. As a result of the relocation, fixed assets purchased by another EOHHS agency, DMA, came into the Office's possession. The Office has come into compliance regarding the loaned DMA assets and will be performing another inventory review within the next two months to make sure all assets are tagged and properly listed as required. The Office is developing a secondary management level review process and is implementing new procedures to guard against future issues. The Office's procedures will include a quarterly internal review of inventory for all or selected regions to ensure that its policies are being followed. If applicable, the Office will communicate with the agency that property is loaned from, or transferred to, to notify them about compliance with state policies. The Office will also ensure assigned staff are tagging and adding newly purchased, transferred or loaned assets to the Office's list. The Office is assigning staff to control this function and believe the quarterly review will allow the Office to maintain an accurate and current

**Office of Child Care Services  
Findings on Compliance with Rules and Regulations**

**Finding Number 7: Internal Controls over Inventory/Fixed Assets Need to be Improved (continued)**

**Department Corrective Action Plan (continued)**

inventory and fixed asset listing. Jan Avallone, Chief Financial Officer, is the responsible person. The Office has established controls over transferred and loaned assets during the audit process but will have complete implementation with clear written internal controls immediately, and quarterly reviews starting around March 1, 2005 to verify our controls are being followed.

Responsible person: Jan Avallone, CFO  
Implementation date: March 1, 2005

## **Registry of Motor Vehicles Findings on Compliance with Rules and Regulations**

### **Finding Number 8: Recording of Adjustments and Uncollectibles Needs Enhancements**

The Registry of Motor Vehicles (Registry) is responsible for the collection of the fines associated with all Civil Motor Vehicle Infractions (CMVI) for the Commonwealth. No provision is made for those that default on the fines. The Registry has the right to revoke the motor vehicle registration or the operator's license to drive for citations that are not paid, minimizing the default rate.

The Registry has an extensive citation accounting system in place to record the citations written each year by local and state police. In calendar year 2003, there were 754,132 citations for 1,097,041 violations written. Payment is due within 21 days unless the citation is appealed to the courts; a court date is set within a year. As a result of the appeal, the fines associated with the citation may be waived, reduced, or upheld. Cash receipts for payment of citations are received and recorded by the Registry. The court notifies the Registry of the results of each hearing and the information is entered into the citation accounting system.

At the time of the audit testing, the balance of the citations receivable was \$60,344,641 represented by a form that was selected for testing. The Registry maintains a clear trail of summary entries into the MMARS system to record the citations issued and the cash received each month. The balance reflected in the MMARS system agrees to the balance in the stand-alone citation accounting system. At June 30, 2004, the balance is \$63,720,424 representing 443,934 citations to be collected.

Registry staff provided a "summary of CMVI receivables" by fiscal year for the years 1992 - 1999 and by month for the fiscal years 2000-2004. \$37,795,781 of the June 30, 2004 balance receivable is for citations issued before fiscal year 2004. All citations that are more than seven years old should be written off. The collection cycle for those that fail to pay continues, with late fees, for the remaining life of the registration (renewed every two years) or the operator's license (renewed every five years). This cycle would suggest that strong consideration be given to writing off all balances that are more than five years old. The Registry has positive experience with collection of overdue citations at the time of license and registration renewal. They should look at the history of these collections and determine a method to establish a reserve for uncollectibles for all citations that remain outstanding after 21 days to acknowledge that some, but not all will be collected at the renewal.

Also provided was report MMRRV110R7 dated July 16, 2004 for statistical information about motor vehicle violations written by month in calendar year 2003 and the disposition of those. This report shows that 69% of citations are guilty/paid, 23% are not guilty/not responsible, 5% defaulted, 2% are waiting for a hearing, and 1% are waiting for payment. These statistics, and other historical data available, should be used by the Registry to assess the collectibility of the amount outstanding of \$23,883,866 for citations written in fiscal year 2004. An amount should be reserved as uncollectible based on the data.

### **Recommendation**

The Registry should continue to consult with the Office of the Comptroller to establish a valid receivable and uncollectible methodology, including a process to recognize in each current year that only a percentage (in 2003 it was 69%) of citations written result in revenue to the Commonwealth. The Commonwealth's books and records and financial statements will then more accurately reflect its financial status.

## **Registry of Motor Vehicles Findings on Compliance with Rules and Regulations**

### **Finding Number 8: Recording of Adjustments and Uncollectibles Needs Enhancements (continued)**

#### **Department Corrective Action Plan**

The Registry will adjust the current receivable in NewMMARS as recommended. The time frame is immediate. We anticipate it should take no longer than 30 days.

The Registry will work with the Comptroller's Office to implement a process for writing off receivables that are longer than the seven year IRS look back period. The process will have to write the dollar value off of NewMMARS only. The citations will have to remain on the driver's record for suspension and insurance purposes.

Responsible person: Paul Savoy and Mary Ellen Kelley  
Implementation date: November 30, 2004

## Office of the State Treasurer/Office of the Comptroller Findings on Reportable Conditions

### **Finding Number 9: Office of the State Treasurer's Use and Reconciliation of Float Fund**

The Office of the State Treasurer (Treasury) and the Office of the Comptroller (Office) employ the use of a supplemental internal control for cash disbursements, referred to as the Float Fund. The Float Fund is designed to systemically mirror the balance of outstanding checks. If working effectively, the balance in this control account will agree to the balance of outstanding checks used by the Treasury to reconcile cash. Conceptually, the Float Fund would strengthen the overall control over cash and provide the Treasurer with an independent, systemic tracking of the check clearing process as well as provide the Office with assurance that payments it authorized were actually paid.

The Float Fund, however, has not been operating effectively or reconciled for several years. The primary reason for this problem is the fact that the Float Fund, as set up in MMARS, is not functioning as conceived. The Float Fund was established as a general ledger account to track the flow of checks issued from the Commonwealth's primary operating accounts. Over the years, however, the activity from several other accounts maintained at remote locations throughout the Commonwealth has been added to the Float Fund. In some cases, the activity that was added is clearing account activity; while in other cases the activity represents advance account or agency fund activity that should be accounted for separately. In almost all cases, there is no consistency in the manner in which these remote transactions are posted into the Float Fund and there is no formal mechanism for departments to provide the Treasury with the information necessary to reconcile the account. Some of the variances date back more than a decade and the detail needed to support the reconciliations is simply not available. As a result, the Float Fund account in its current form is virtually irreconcilable.

The Treasury has been working to address this issue for several years. Under the prior administration, significant efforts were undertaken to identify and eliminate the unreconciled differences. While those efforts were ultimately unsuccessful, procedures were implemented to allow a timely reconciliation of all current period activity flowing through the Float Fund.

During the year ended June 30, 2004, timely reconciliations of current period activity flowing through the Float Fund were not performed. The Float Fund is a control account. As such, entries recorded to the Float Fund should not impact the financial statements of the Commonwealth. In the current year, however, an errant posting to this account resulted in an overstatement of revenue of \$24 million. This error was identified several months after year-end in the overall cash reconciliation process between cash per the Treasury and cash per MMARS.

The Treasury has begun a process to close out the existing Float Fund account and to create a new one that will function as originally intended. The new Float Fund will be comprised of several sub-funds that will better reflect the source of activity being posted into the account. Once established, the Float Fund will be closed out on an annual basis to allow the "run-out" of old activity and to identify variances that remain unreconciled from the current year. A new Float Fund account will be opened simultaneously to account for new fiscal year activity. The creation of these new accounts will be supported by more timely reconciliation procedures that will protect against the types of errant postings noted in the current year.

## **Office of the State Treasurer/Office of the Comptroller Findings on Reportable Conditions**

### **Finding Number 9: Office of the State Treasurer's Use and Reconciliation of Float Fund (continued)**

#### **Recommendation**

We believe that management of the Treasury and the Office are taking appropriate actions to address this issue. As part of this process, management should also consider a review and assessment of all of the activity that flows through the existing Float Fund. A determination should be made as to whether or not the activity flowing through the account from non-Treasury sources is clearing account activity. All non-Treasury clearing account activity should be separately assigned a sub-fund within the Float Fund and accounted for separately within MMARS. This action will result in a clearer representation of the activity in the account and will strengthen detective internal controls over cash disbursements. Further, this action will help to highlight certain activities that may be inappropriate or that may represent a circumvention of Commonwealth policies (e.g. the use of advance accounts).

As noted, a more timely reconciliation of the Float Fund is a part of management's plan. In support of that objective, we recommend that the State Treasurer and the State Comptroller develop and jointly issue a statement of accounting policies and procedures to provide uniform guidance to be provided to any department authorized to post transactions to the Float Fund account. Further, any departments that post transactions to the Float Fund should be charged with the responsibility for reconciling their own accounts and that information should be forwarded to the Treasury and/or the Office on a monthly basis for further review.

#### **Department Corrective Action Plan**

The Office of the Comptroller and Office of the State Treasurer are working together to replace the old Float Fund (also referred to as Fund 613) with a new Float Fund (Fund 614). The new Float Fund will benefit from ability in the NewMMARS accounting system to divide the fund into sub-funds, which will allow segregation of the different elements of float that have been a detriment to the reconciliation of the Float Fund in the past. The immediate benefits from this effort are mostly prospective, although it is expected that this plan will eventually allow the State Treasurer and Comptroller to determine the unreconciled variance within the old Float Fund (613).

The process of converting to the new Float Fund began in FY 2004, as the Treasury converted its checking accounts from Fleet Bank to Sovereign Bank. At the end of FY 2004 Fund 613 ceased to be used for issuing checks and was replaced by Fund 614, which contains a sub-fund for each bank account or major business function that makes up the Float Fund. Fund 613 was used through the Accounts Payable period for FY 2004, so there are still a number of checks outstanding against this fund. There also were cutover issues between Fund 613 and Fund 614 that will require reallocation of activity from one fund to the other, so Fund 613 will not be wound up until near the end of this Corrective Action Plan.

The initial focus of the Corrective Action Plan is to establish a functioning Float Fund under the NewMMARS accounting system. As noted previously, NewMMARS allows sub-funds to be entered to account for different types of Float activity. In addition, two new bank accounts established on July 1<sup>st</sup> contain only NewMMARS activity – the NewMMARS vendor account and the NewMMARS DMA payment account. The Treasury has begun the process of reconciling Fund 614 by reconciling Sub-fund 614-0505, the sub-fund that corresponds to the NewMMARS vendor account. This sub-fund has been effectively reconciled through the end of October.

**Office of the State Treasurer/Office of the Comptroller  
Findings on Reportable Conditions**

**Finding Number 9: Office of the State Treasurer's Use and Reconciliation of Float Fund (continued)**

**Department Corrective Action Plan (continued)**

The next step, to occur in late December will be the reconciliation of several Treasury accounts that contain activity from more than one fiscal year – beginning with the HR/CMS payroll account. This reconciliation effort will require additional steps beyond the simple reconciliation of the NewMMARS vendor account, because checks clearing on any given day – particularly in July – could have been issued in either FY2004, in which case they were originally booked to Fund 613, or in FY2005, in which case they were booked to Fund 614-0182. When the NewMMARS system first went live, all check presentments were booked to fund 614-0182, because the NewMMARS paid check functionality was not yet operational. This functionality is now active and will allow the Treasury to extract the NewMMARS portion of the paid check file for each day from the total and to make corresponding adjustments to the balances of Fund 614-0182 and Fund 613.

This process will then be repeated by Treasury for the other Treasury accounts and by delegated agencies such as RMV, DOR, DOC, for their accounts. This process is expected to run through April 2005. Once completed, Fund 614 will be reanalyzed to determine that all FY2005 activity is accurately stated. At that point the remaining outstanding check amounts for Fund 613 will be compared to the overall fund balance to determine the unreconciled ending variance of the Fund. A decision of how to address this variance will be made at that time, probably sometime between June and October 2005. Fund 613 will be closed out permanently on July 1, 2005, when the last checks issued become stale.

Responsible person: Eric Berman, Office of the Comptroller  
Tim Brooks, Office of the State Treasurer  
Implementation date: Staged, from December 1, 2004 to October 1, 2005

# Institutions of Higher Education Bridgewater State College Findings on Compliance with Rules and Regulations

## Finding Number 10: Internal Control Plan in Need of Improvements

Bridgewater State College (College) has not updated its internal control plan, including written administrative and accounting policies and procedures for the College's operations. As a result, it is not in compliance with Chapter 647 of the Acts of 1989, an Act Relative to Improving the Internal Controls within State Agencies, and the Internal Control Guides issued by the Office of the Comptroller (OSC).

Chapter 647 of the Acts of 1989, states, in part:

*"Internal control systems for the various state agencies of the Commonwealth shall be developed in accordance with internal control guidelines established by the Office of the Comptroller."*

Further, the **Internal Control Guide for Commonwealth Departments**, states, in part:

*"A departmental control plan is a high level summarization on a department-wide basis, of the department's risks (as the result of a risk assessment) and of the controls used by the department to mitigate those risks. This high level summary must be supported by lower level detail, i.e. departmental policies and procedures. We would expect this summary to be from ten to fifty pages, depending on the size and complexity of the department... A departmental risk assessment is the identification and analysis of the risks that could prevent the department from reaching its goals and objectives. This identification and analysis forms the basis for determining how the risks should be managed. A precondition to risk assessment is the establishment of the organization's mission and goals."*

Our audit disclosed that the College does not have an internal control plan that is a high level summarization on a department-wide basis of the College's risks. Although the College has prepared its required risk assessment identifying possible risks that would prohibit the College from accomplishing its mission, the risk assessment is not integrated into its internal control plan to identify how these risks would be mitigated.

The College does have lower level detail, i.e. departmental policy and procedure manuals that can be used to update the internal control plan. However, key components and elements of the internal control systems contained within these manuals (e.g., payroll, inventory, cash receipts) were found to be fragmented, outdated, or not established in accordance with the OSC internal control guides, current policy memos, and other state policies, procedures, and regulations. Chapter 647 requires that the College's internal control officer should

*...annually, or more often as conditions warrant, evaluate the effectiveness of the agency's internal control system and establish and implement changes necessary to ensure the continued integrity of the system.*

Without documented internal control systems in place, there is inadequate assurance that the College will achieve its mission and objectives efficiently, effectively, and in compliance with applicable state laws and regulations and will properly safeguard its assets against loss, theft or misuse. College officials stated they are in agreement that improvements need to be made and would review existing internal control procedures and practices. They also indicated that staff turnover, layoffs, and unfamiliarity with Chapter 647 and OSC requirements contributed to not having an updated internal control plan.

**Institutions of Higher Education  
Bridgewater State College  
Findings on Compliance with Rules and Regulations**

**Finding Number 10: Internal Control Plan in Need of Improvements (continued)**

**Recommendation**

The College should update its internal control plan in order to be in compliance with Chapter 647 and the guidelines established by OSC. The College should review its College-wide risk assessment and incorporate it into its internal control plan along with the controls in place that mitigate the identified risks. Furthermore, the College should ensure that its internal control system is evaluated, and the necessary changes implemented, at least annually or when conditions warrant changes, and that controls are in place to mitigate identified risks.

**Department Corrective Action Plan**

The College's Fiscal Affairs Office will update and revise its Internal Control Plan in accordance to Chapter 647 and the guidelines established by the State Comptroller's office. In addition, the Office of Fiscal Affairs will implement an evaluation system to ensure that the internal control plan and risk assessment are revised, updated, and implemented as deemed necessary.

Responsible person: Darlene Costa-Brown, Associate Vice-President/Controller  
Implementation date: June 30, 2005

**Institutions of Higher Education  
Roxbury Community College  
Findings on Compliance with Rules and Regulations**

**Finding Number 11: Non-Appropriated Fund Activity and Balances not Reconciled in a Timely Manner**

Prior audit reports starting in fiscal year 1995 have disclosed that Roxbury Community College (College) had not been entering and reconciling its Non-Appropriated Fund [Fund 901] activity monthly, as required by Commonwealth laws and regulations. To comply, the College should have reconciled the Massachusetts Management Accounting and Reporting System (MMARS) 110H Report with its internal records on a monthly basis.

The prior audit disclosed that, although a reconciliation of the non-appropriated fund was prepared for the fiscal year ended June 30, 2003, activity was not entered into MMARS on a quarterly basis. In addition, the prior report disclosed that adjustments to the reconciliation were based on the need to adjust the MMARS records to agree with the in-house trust records.

Chapter 138, Section 339 of the Acts of 1991 requires public institutions of higher education to report all non-appropriated fund on MMARS. Directives from the Office of the Comptroller (OSC) instructed the colleges to post the cash inflows and outflows for non-appropriated funds and reconcile the information appearing in the 110H Report to the information in the College's records on a monthly basis.

Our follow-up audit disclosed that the College has continued to make improvement in reconciling its internal records to MMARS 110H reports each quarter; however, improvements are still needed. On September 28, 2004, the College provided reconciliations of the non-appropriated fund for the three quarters ended March 31, 2004. The fourth quarter reconciliation was in the process of being completed.

A review of the first quarter reconciliation for the period ended September 30, 2003 disclosed that the College entered into MMARS adjustments of \$1,800,595, consisting of an \$841,320 increase and a \$2,641,915 decrease, to reflect the actual balances of the College's records. The adjustments were solely based on the need to adjust the MMARS records to agree with the in-house trust records. The Director of Finance stated to us that the adjustments represented financial activity before July 1, 2003; however, he could not provide details on documentation of the adjusted amount. (*Fiscal Year 1995; 2003 Report Finding 17*)

**Recommendation**

The College should continue to take corrective action by updating and reconciling non-appropriated funds in a more timely fashion with all adjustments clearly identified, documented, and explained. Preferably, reconciliations should be prepared on a monthly basis, rather than quarterly in order to timely identify all variances.

**Department Corrective Action Plan**

Begin monthly reconciliations to MMARS for non-appropriated fund activity by October 2004.

Responsible person: Craig Zaehring  
Implementation date: October 2004

## **Institutions of Higher Education Roxbury Community College Findings on Reportable Conditions**

### **Finding Number 12: Inadequate Controls over the Payment of Reggie Lewis Center's Utility Bills**

In accordance with Chapter 647 of the Acts of 1989, an Act Relative to Improving Internal Controls within State Agencies, Roxbury Community College (College) notified the Office of the State Auditor (OSA) that outstanding utility bills totaling \$169,498 at the Reggie Lewis Center (RLC) had not been paid over a three-year period. Of the \$169,498 in outstanding bills, \$92,054 were from fiscal years 2002 and 2003. The College did not have written internal control guidelines or detailed policies and procedures within its College-wide policies and procedures manual that address the financial responsibilities of the RLC for submitting bills to the business office.

The RLC is part of the College campus. The facility collects and processes revenues from the use of the facility, such as track events. The vice president of administration and finance indicated that the amount owed to the utility company was undetected because the facilities director did not handle the bills. The bills were not submitted to the business office by the RLC business manager because there was no expectation that the business office would be directly involved in the payment of the RLC utility bills. As a result of this issue, the College has taken corrective action to ensure that bills are paid in a timely manner by implementing the following:

- Fiscal operations of the RLC were integrated fully into the College's financial operations. All utility bills are to be managed by the facilities director and the business manager. The director of facilities initiates payments through the College's business office. The business manager has been relocated from the RLC to the business office.
- Utility bills for the RLC are sent to the facilities director who in turn submits them to the college's comptroller for payment.
- Closer monitoring of all utility bill payments will be conducted by the comptroller and the vice president of administration and finance.
- A payment plan was set up with the utility company to pay off the balance owed in seven months, starting in August.
- During September 2004, the Legislature passed a supplemental appropriation which substantially covered the past due utility bills.
- Negotiations are underway with the utility company to determine how much of the late charges that they will waive. The College is in the process of issuing a \$110,000 check to the utility company. Based on the outcome of the negotiations, the budget of RLC will be revised to incorporate any remaining balance.

The Office of the Comptroller's (OSC) *Internal Control Guide for Managers* identifies monitoring as one of the five key components of internal controls. Chapter 3 of the guide requires that:

*After internal controls are put into place, their effectiveness needs to be periodically monitored to ensure controls continue to be adequate and continue to function properly. Management must also monitor previously identified problems to ensure that they are corrected. Monitoring allows the Manager to identify whether controls are being followed before problems occur.*

The internal control guidelines also require that policies and procedures must be documented.

### **Recommendation**

The College should develop adequate internal controls to monitor the financial activities of the RLC in order to minimize the risk of outstanding bills being unpaid. The College also needs to establish written policies and procedures within its College-wide policies and procedures manual that address the financial responsibilities of the RLC and detail the processing and payment of its utility bills.

**Institutions of Higher Education  
Roxbury Community College  
Findings on Reportable Conditions**

**Finding Number 12: Inadequate Controls over the Payment of Reggie Lewis Center's  
Utility Bills (continued)**

**Department Corrective Action Plan**

Internal procedures expanded and revised so that they explicitly include the Reggie Lewis Center.

Responsible person: Cliff Williams  
Implementation date: December 2004

# Institutions of Higher Education Springfield Technical Community College Findings on Compliance with Rules and Regulations

## **Finding Number 13: Improvements Needed in the Reconciliation of College Records to the Commonwealth's Accounts Receivable System**

The Springfield Technical Community College (College) needs to improve its monthly accounts receivable postings and reconciliations between the College's records and the Commonwealth's Massachusetts Management Accounting and Reporting System (MMARS).

Our testing involved a review of one MMARS Receivable (RE) summary transaction that reflected a \$7,965,585 balance on MMARS as of June 30, 2004. The College's accounting system showed a balance of \$1,863,604 as of June 30, 2004. The College did not post cash collections, billings, and other activity during the fiscal year totaling \$6,101,981. The College processed a Cash Transfer (CT) transaction in MMARS for cash collection of \$327,862 and an (RD) Revenue Decrease transaction to adjust for errors and record downward adjustments of \$5,774,119 for fiscal year 2004 activity in fiscal year 2005. Therefore, the June 30, 2004 balance in MMARS differed from the June 30, 2004 balance on the College records.

Our review of the College records disclosed that the College was not properly posting accurate monthly summary reporting on MMARS for the period July 2003 through June 2004. Balancing the Colleges system to MMARS, as noted above, was achieved with the postings of RI, RD, and CT transactions posted only once during the fiscal reporting year. The College also has been writing off accounts receivables without getting the required approval from OSC and has not used the appropriate MMARS WO (Write Off) transaction, but instead was using an RD transaction.

The College is required to comply with MMARS. Full accounting, recording, and reporting of earned revenue/accounts receivable due to the Commonwealth is accomplished by utilizing MMARS. The Commonwealth of Massachusetts Comptroller Policy Memo #315 entitled OSC Policy on Reporting of Earned Revenue/Accounts Receivable states in part:

- *Departments are required to use MMARS, to report all earned revenue/ accounts receivable activity either in detail or summary fashion.*
- *Departments with an OSC approved delegated accounts receivable system may continue to post summary receivables on MMARS, but must do so in accordance with this updated guidance. During this fiscal year, OSC will begin to review all delegated accounts receivable systems to ensure compliance with accounting standards.*
- *Revenue Decrease (RD) transactions in excess of \$100,000 will result in the RD processing to a PEND5 status. RD's will not be used to record for uncollectible amounts; departments will transmit a Write Off transaction (WO) request to the Office of the Comptroller Revenue Bureau to properly record uncollectible amounts.*
- *Departments will be required to prepare a mid-year Summary Aging Receivable Report beginning in FY 02 which details the age of all receivables contained in the MMARS summary receivable.*

**Institutions of Higher Education  
Springfield Technical Community College  
Findings on Compliance with Rules and Regulations**

**Finding Number 13: Improvements Needed in the Reconciliation of College Records to the Commonwealth's Accounts Receivable System (continued)**

Regarding summary reporting, Memo #315 also states:

***Summary Reporting***

- *Departments are required to utilize MMARS to maintain one summary receivable, across fiscal years, that accurately represent the net value of the Earned Revenue/Accounts Receivable by revenue source code. When recording earned revenue/receivables at a summary level on MMARS, departments are required to maintain their approved delegated accounts receivable system at a sufficient level of detail to verify the accuracy of summary reporting. By the close of each accounting period it is a requirement that the summary receivable amount be adjusted by the department. Adjustments that are currently supported by MMARS transactions are:*
- *Cash collections which reduce the summary receivable (CT)*
- *Increases in the receivable amount for new services, claims, etc. for the month or to record errors resulting in increases (RI)*
- *Decreases in the receivable amount to record errors resulting in decreases or other downward adjustments to the amount resulting from disallowances (RD)*
- *Uncollectible amounts approved by the Office of the Comptroller for write-off (WO).*

OSC's Policy Memo #315; *OSC Policy on Reporting of Earned Revenue/Accounts Receivable*, dated August 28, 2001 states in part:

*RD's will not be used to record for uncollectible amounts; departments will transmit a Write Off transaction (WO) request to the Office of the Comptroller Revenue Bureau to properly record uncollectible amounts, and the Write Off (WO) transaction, not the RD, must be used by departments to reduce the receivable balance for identified uncollectible amounts.*

Responsible officials stated that they have written off uncollectible amounts, but have not used a WO in years to reduce these amounts. Instead of using the WO, officials stated they have been "netting" the write off amounts in with the RD transactions. The College wrote off a total of \$236,014 during fiscal year 2004, netting this amount into the RD completed at year-end. This amount included bad debts of \$248,148 written off from fiscal year 1998, debts of \$4,167 written off from fiscal year 2003 and revenue of \$16,301 representing bad debts written off from fiscal year 1998 that were later collected.

**Recommendation**

The College should implement adequate internal control procedures to ensure that accurate monthly postings of accounts receivables be made to MMARS. Monthly postings to MMARS should be accurate and reflect the monthly activity on the College's system. Without timely reconciliations, the College cannot be assured that receivables are accurately reflected, and the collection process could be impaired. The College should transmit a WO request to OSC for all write-offs of uncollectible accounts receivable in order to comply with OSC requirements and properly identify and record these write-offs. A process of oversight and monitoring by other College administrative personnel should be instituted to ensure that reconciliations of the College internal records are accurately reported in summary into MMARS each month.

**Department Corrective Action Plan**

The College will implement procedures to ensure that accurate monthly posting are being made to MMARS. Monthly reporting has been difficult due to staffing and workload issues, but we will make every effort to establish and maintain monthly reporting on MMARS

Responsible person: Catherine Olson, Director of Accounting  
Implementation date: November 1, 2004

**Institutions of Higher Education  
Worcester State College  
Findings on Compliance with Rules and Regulations**

**Finding Number 14: Noncompliance with Chapter 647 of the Acts of 1989 Reporting Requirements**

Worcester State College (College) did not report the thefts of property and the unauthorized reproduction and cashing of College checks to the Office of the State Auditor (OSA). In accordance with Chapter 647 of the Acts of 1989, an Act Relative to Improving the Internal Controls within State Agencies, agencies are required to immediately report unaccounted-for variances, losses, shortages, or thefts of property to the OSA. Chapter 647 also requires the OSA to determine the internal control weaknesses that contribute to or cause an unaccounted-for variance, loss, shortage, or theft of funds or property; make recommendations to correct the condition found; identify the internal control policies and procedures that need modification; and report the matter to appropriate management and law enforcement officials.

The College did not report the following incidents to the OSA.

<u>Date of Campus Police Report</u>	<u>Item/Description</u>	<u>Value</u>
10/29/2003	2 Wall Photographs	\$160
12/16/2003	Sand Spreader	\$150
3/4/2004	Laptop Computer	\$2,366
6/21/2004	2 Digital Projectors	\$2,400
1/13/2004	Funds (Fraud scheme- Bank Checks)	\$8,226

The College had adequate internal controls over its general fund bank account, because in performing the timely reconciliation of its December 2003 bank statement, the College's accountant noticed 13 checks ranging from \$489 to \$751, totaling \$8,226, and questioned their authenticity. The checks were all dated in December 2003, the check numbers were processed on the prior month's bank statement, and the College's former vice president of finance's signature was on each of the checks. All 13 checks had the same payee and endorsements. The College notified the bank and the proper law enforcement authorities. On February 5, 2004, the bank made restitution for the \$8,226. The incident is still under investigation by the law enforcement authorities.

The two digital projectors were left in an unlocked classroom and a faculty member mistakenly left the laptop computer in the lounge of the education department. Chapter 647 of the Acts of 1989 requires that access to resources be limited to authorized individuals and that the restrictions on access to resources depend on the vulnerability of the resources and the perceived risks. The College indicated that it was their policy to leave the projector in an unlocked classroom so that faculty and students would have easy access to the classroom and use of the projector during the day. With respect to the faculty member who left the laptop in the lounge, the College indicated that it was an oversight on the part of the faculty member. The other items, two wall photographs and sand spreader, were reported missing to the campus police.

The College's internal control plan documented the Chapter 647 reporting requirements to the OSA for unaccounted variances, losses, and shortages or thefts of funds or property. However, the college did not comply with the requirement. It is important that these incidents be reported immediately and investigated by the OSA as prescribed by law, to ensure full and proper disclosure, resolution, and corrective action to preclude their reoccurrence.

**Institutions of Higher Education  
Worcester State College  
Findings on Compliance with Rules and Regulations**

**Finding Number 14: Noncompliance with Chapter 647 of the Acts of 1989 Reporting Requirements (continued)**

**Recommendation**

The College should comply with Chapter 647 of the Acts of 1989 and immediately report all instances of unaccounted for variances, losses and thefts of funds or property to the OSA. The College should also review its policies and procedures with regard to leaving equipment vulnerable to theft in unlocked classrooms and develop or adjust its policies and procedures to ensure that equipment is properly safeguarded. Faculty, staff, and students should be instructed to safeguard College equipment in their possession.

**Department Corrective Action Plan**

Worcester State College will review its internal control policy with regard to the reporting of lost or stolen property or funds. Effective immediately, all instances of unaccounted for variances, losses, and thefts of funds or property will be reported to the OSA by the fiscal affairs division.

The college is in the process of implementing a campus wide one-card initiative. The card system provides security access control as well as e-commerce capabilities. As part of this process, a policy will be established with regard to secured card access to classrooms and buildings, in addition to the placement of additional video surveillance equipment. As the system is implemented, all employees will be reminded of their obligation to secure equipment and valuables in their possession.

Responsible person: Kathleen Eichelroth, Vice President of Fiscal Affairs

Implementation date: Immediately

## Various Departments Findings not Repeated from Prior Years

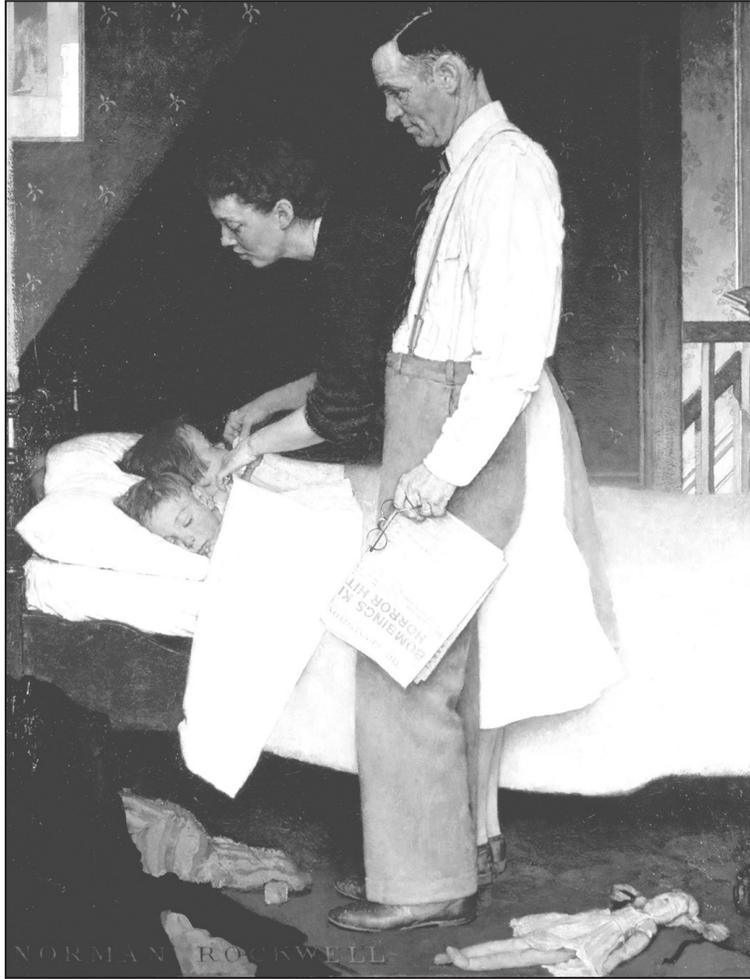
1. The Division of Unemployment Assistance (DUA) and the Division of Career Services (DCS) formerly the Division of Employment Training (Division), did not assess penalties to employers' who were delinquent in the filing of their quarterly Universal Health Insurance (UHI) reports and/or nonpayment of contributions due, as required by Massachusetts General Law Chapter 151A, Section 14G(g). The fiscal year 2004 audit disclosed that the Division is currently assessing penalties to employers who are delinquent in filing their quarterly reports and/or for non-payment of contributions due. *(Fiscal Year 2003 Report Finding 1)*
2. The Department of Fire Services (Department) did not record a fixed asset onto the Massachusetts Management Accounting and Reporting System (MMARS), the Commonwealth's central accounting system, in a timely manner. The Department initiated training in May 2003 and the final training was held in April 2004. The training was a joint inventory management and fixed asset recording and reporting. *(Fiscal Year 2003 Report Finding 2)*
3. The Department of Public Health (Department) did not comply with the Comptroller's Policy Memorandum Number 310, which sets forth the policies and procedures for recording fixed assets. The Department runs weekly reports to monitor purchases and no similar instances were noted during the FY2004 single audit. *(Fiscal Year 2003 Report Number 4)*
4. One of the Department of Public Health's (Department) hospitals was unable to provide supporting documentation for adjustments made to accounts receivables for charges due from patients and was not performing reconciliations between hospital records and MMARS. Monthly reconciliation is taking place and no similar instances were noted during the fiscal year 2004 single audit. *(Fiscal Year 2003 Report Finding 5)*
5. The Massachusetts Highway Department (Department), in conjunction with the Massachusetts Turnpike Authority (Authority), needed to continue to improve the oversight over the recording and financial reporting of the Commonwealth of Massachusetts assets in the Owner Controlled Insurance Program (OCIP). During the fiscal year 2004 audit, all information needed from the insurance was provided and all the work by the OCIP's accountants and auditors was performed on a timely basis. *(Fiscal Year 2003 Report Finding 6)*
6. The Massachusetts Highway Department (Department) did not record a fixed asset onto the Commonwealth's central accounting system, in a timely manner. During the fiscal year, the Department implemented procedures to ensure the individual responsible for recording assets receives and posts all acquisition information in a timely manner. *(Fiscal Year 2003 Report Finding 7)*
7. The Department of Social Services (Department) did not complete bi-weekly payroll certifications in compliance with the Office of the Comptroller's (OSC) payroll expenditure requirements. The fiscal year 2004 audit disclosed that the Department did implement procedures to comply with OSC's requirements and payroll certifications were completed by a proper signatory authority. *(Fiscal Year 2003 Report Finding 9)*
8. The Department of Fisheries, Wildlife and Environmental Law (Department) did not record a fixed asset onto the Massachusetts Management Accounting and Reporting System (MMARS), the Commonwealth's central accounting system, in a timely manner. A memo was sent to each chief financial officer reminding him or her that fixed assets must be recorded in seven days. *(Fiscal Year 2003 Report Finding 10)*

## Various Departments Findings not Repeated from Prior Years

9. The Massachusetts Rehabilitation Commission (Commission) did not reconcile its annual inventory with the required Non-GAAP fixed asset roll forward. The Commission reconciled its annual inventory to the roll forward for fiscal year 2004. *(Fiscal Year 2003 Report Finding 11)*
10. The Massachusetts Rehabilitation Commission (Commission) needed to continue to implement and test its Business Continuity Plan and update the Plan annually to address current operational needs. The Commission has tested and updated its Plan in fiscal year 2004. *(Fiscal Year 2003 Report Finding 12)*
11. The Department of Housing and Community Development (Department) did not reconcile its annual inventory with the required Non-GAAP fixed asset roll forward. The Department performed the roll forward and reconciled its annual inventory. *(Fiscal Year 2003 Report Finding 13)*
12. The State Reclamation Board (Board) did not record two fixed assets onto MMARS, the Commonwealth's central accounting system, in a timely manner. A memo was sent to all area office reminding them of the seven-day rule. No GAAP fixed assets were purchased during fiscal year 2004. *(Fiscal Year 2003 Report Finding 14)*
13. The Office of the State Treasurer (Treasury) needed to improve the timing of the processing and reporting of the proper accounting of debt transactions. The Treasury needed to assign someone other than the individual responsible for managing bond transactions to prepare the accounting of the transactions. During the fiscal year 2004 audit, the timing of the processing and recording of debt transactions improved significantly and someone other than the individual responsible for managing the transactions played a more significant role in the recording and accounting of the transactions. *(Fiscal Year 2003 Report Finding 15)*
14. Massasoit Community College (College) needed to improve its practices and procedures in the reconciliation of College records to the Massachusetts Management Accounting and Reporting System (MMARS) and entering data into MMARS in a timely manner. The College has taken corrective action by entering data into the system in a timely manner and is reconciling its accounts receivable to MMARS. *(Fiscal Year 2003 Report Finding 16)*
15. Salem State College (College) was unable to provide adequate documentation to support adjustments made to accounts receivable for tuition and fees and was not performing monthly reconciliations between the College's records and MMARS as required by the Comptroller's Office. The College has taken corrective action by establishing internal controls to ensure that adequate supporting documentation is maintained and monthly reconciliations to MMARS are being made. *(Fiscal Year 2003 Report Finding 18)*

# SECTION V

## Findings on Compliance and Reportable Conditions Pertaining to Internal Control Structure Used in Administering Federal Programs



*Freedom from Fear*

*The Saturday Evening Post*, March 13, 1943 ©1943 SEPS: Licensed by Curtis Publishing, Indianapolis, IN.

*Freedom from Fear* was the last of the four ideas to be done. These paintings succeeded in raising almost \$133 million in war-bond purchases. Norman Rockwell said the *Four Freedoms* were “serious paintings which sucked the energy right out of me, leaving me dazed and thoroughly weary.”

In a personal letter to Rockwell, President Roosevelt wrote, “I think you have done a superb job in bringing home to the plain, everyday citizen the plain, everyday truths behind the Four Freedoms . . .

I congratulate you not alone on the execution but also for the spirit which impelled you to make this contribution to the common cause for a freer, happier world.”



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## Office of the Comptroller Findings on Compliance with Rules and Regulations

### Finding Number 15: Excess Indirect Costs Charged not Adjusted in a Timely Manner

The Office of the Comptroller did not credit \$211,709 in FY2004 overcharges to federal programs until fiscal year 2005 (FY2005).

The Office of the Comptroller (Office) is responsible for providing instruction to program MMARS to assess all applicable appropriation accounts for fringe and indirect costs using the approved rates and bases developed and negotiated in accordance with OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*. After departmental transactions are closed, the Office is also responsible for performing a reconciliation to ensure fringe and indirect charges in the financial statements and the schedule of expenditures of federal awards are allowable. If any overcharges are noted, the Office is accountable for posting adjustments to eliminate those overcharges.

The Office was in the midst of implementing a new accounting system during the FY2004 year-end closing process. The reconciliation and posting of adjustments to eliminate any fringe and indirect overcharges did not occur until FY2005. As a result, \$82,606 in indirect costs for FY2004 for the Improving Teacher Quality-State Grants Program, CFDA# 84.367 was not credited until November 2004.

In another case, the Office instructed MMARS to charge indirect costs to CFDA#93.053, the Title III Nutrition Services Incentive Program, administered by the Department of Elder Affairs (Department). The Department notified the Office that this program does not allow indirect costs, and that those indirect costs should be transferred to CFDA# 93.044. One transfer was made during the fiscal year; another transfer of \$129,103 was not made until November 20, 2004. (*Department of Education - Improving Teacher Quality - State Grants 84.367; Department of Health and Human Services - Nutrition Services Incentive Program 93.053*)

### Recommendation

With the implementation of the new accounting and reporting system, the Office of the Comptroller should focus its efforts on performing the year-end reconciliation and post any adjustments on a timely basis to ensure amounts in the financial statement and schedule of expenditures of federal awards are properly stated.

### Department Corrective Action Plan

Both the Department of Education and the Department of Elder Affairs credits were processed in FY2005 due to the closure of activity in “Old” MMARS and the timing of conversion to the new MMARS accounting system. We will continue to review these activities as part of the monthly and year-end reconciliation processes and post any necessary adjustments in a timely manner.

Responsible person: Marybeth Shaughnessy – Newell, Fred DeMinico  
Implementation date: Has been implemented

## Office of the Comptroller Findings on Compliance with Rules and Regulations

### Finding Number 16: Additional Costs included in the Statewide Cost Allocation Plan

The Office of the Comptroller (Office) included \$518,000 in additional costs in computing the 2004 Statewide Cost Allocation Plan. These costs affected indirect cost rates and departmental cost allocation plans.

The Office is responsible for preparing the Statewide Cost Allocation Plan (Plan). The Plan identifies certain departments known as Central Services Agencies (CSA), which provide administrative services on behalf of other departments. The allowable costs of those CSAs are computed and allocated on a variety of equitable bases to user departments through the Plan. The U.S. Department of Health and Human Services, Division of Cost Allocation (DCA) negotiates and approves the Plan for use. The total of the applicable approved CSA allocations is incorporated in a department's indirect cost rate proposal or cost allocation plan, which is then used to charge federal programs for administrative costs.

Costs as shown in MMARS and allocable to the CSAs in accordance with OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* were used to prepare the 2004 Plan based on 2002 actual costs. During the audit of the 2004 Plan, the following items were noted:

- The direct-billed single audit costs to departments with major federal award programs were also included in the allocated costs of the Office of the Comptroller. As a result, there was an overstatement of \$517,000.
- Costs for health and welfare applicable to the Division of Capital Planning and Operations were overstated by \$1,000.

The total overstatement, as a result of these observations was \$518,000. The exact effect on federal programs for these total overstatements can only be determined when the CSAs are adjusted and the revised allocations are used to recompute department indirect cost rates or cost allocation plans.

Other issues were also noted in the Plan for which the dollar impact on federal programs could not readily be determined:

- An amount of \$1,432,584 identified as federal reimbursements for the Medicaid Fraud Control Unit in the Attorney General's Office (Office) could not be verified. Reimbursements reduce the amount allocated to other CSAs and departments. In addition, \$19,532 in health and welfare costs and \$64,942 in Information Technology Division costs were not included in the Office's expenditures. It affected the allocation of CSA costs between allowable and unallowable activities within the Attorney General's Office and between the other CSAs and other departments.
- Understated costs of \$88,837 resulted from the omission of CSA costs that were supposed to be allocated to other departments.
- In the Office of the State Treasurer and Receiver General, using an apportionment formula, rather than specific identification of costs for those activities, resulted in a \$10,766 overstatement of costs for an unallowable function, which affected the subsequent allocations between allowable and unallowable functions.

## Office of the Comptroller Findings on Compliance with Rules and Regulations

### Finding Number 16: Additional Costs included in the Statewide Cost Allocation Plan (continued)

Certain issues noted the FY2003 Plan, did not appear in the FY2004 Plan as follows:

- There was no duplication of costs in two different CSAs (Office of the Comptroller and Human Resources Division) for information technology relating to processing the payroll. The FY2005 Plan will be adjusted for the \$529,937 overstatement in the FY2003 Plan.
- The proper rate was used to compute the costs for health and welfare benefits paid on behalf of employees for the Office of the State Treasurer. The FY2005 Plan will be adjusted for the \$27,484 overstatement in the FY2003 Plan.
- The formula for adding payroll cost for the Office of the Comptroller was corrected and additional costs were not claimed. The additional costs claimed of \$9,711 in the FY2003 Plan will be adjusted in the FY2005 Plan.
- Medicare costs related to the central service administrative pool for the Executive Office for Administration and Finance was included in the Plan. The \$30,020 understatement in the FY2003 Plan will be adjusted in the FY2005 Plan.
- Over and understatements of costs resulting from the final determination of FY2001 actual costs for mail, computer, and telecommunications rates by the Information Technology Division were included in computing the CSAs as agreed to with DCA. This issue is resolved.

Other issues in the FY2003 Plan relating to \$525,000 in direct-billed single audit costs, the understatement of total cost for three CSAs by \$40,000, \$6,563 and \$3,437, which affected the subsequent allocations between allowable and unallowable activities within the CSAs and between the CSAs and other departments will be adjusted in FY2005 Plan. (*Unknown Federal Programs; Fiscal Year 2003 Single Audit Finding 29*)

### Recommendation

The Office of the Comptroller should continue to carefully review all Statewide Cost Allocation Plans to ensure costs are complete, accurate, based on approved agreements for the proper fiscal period and net of applicable credits prior to submission.

### Department Corrective Action Plan

The 2004 Plan, which was the plan under audit, was submitted to the Federal Cognizant Agency in advance of the FY2003 Single Audit findings publication. As a result, the 2005 Plan contains adjustments for the FY2003 activity and additional documentation needed to substantiate amounts. The 2005 Plan also was the result of a top to bottom six-month review by this Office. As part of the 2006 Plan, we will make appropriate adjustments pertaining to those above to properly reflect the mentioned issues

Responsible person: Marybeth Shaughnessy – Newell, Fred DeMinico  
Implementation date: Has been implemented

## Office of the Comptroller Findings on Compliance with Rules and Regulations

### Finding Number 17: Documentation Supporting the Statewide Cost Allocation Agreement Needs Improvement

The Office of the Comptroller (Office) needs to improve the documentation it prepares to support those sections of the Statewide Cost Allocation Agreement for which it has responsibility.

One unit within the Office is responsible for negotiating the Statewide Cost Allocation Agreement (Agreement), with U.S. Department of Health and Human Services, Division of Cost Allocation (DCA). Section I of the Agreement, identifies and allocates the allowable costs of Central Service Agencies (CSA) to user departments. In preparation for Section I negotiations, the Office prepares and submits a Statewide Cost Allocation Plan (Plan) which is certified as complying with OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* (Circular) by the Deputy Comptroller. Section II of the Agreement, lists those fringe benefits and other services that are directly billed to user departments.

During the audit of Section I of the Plan prepared by the Office, the following issues were noted, many of which were noted during the review of the FY2003 Plan:

- A reconciliation was not prepared between all appropriation and revenue accounts for some central services agencies, which support the certified financial statements, and the amounts that were ultimately used in the Plan.
- The Schedule of Costs to be Allocated by Function for all agencies did not readily tie to Schedule A, the Approved Fixed Central Service Allocations, as agreed to with the DCA. Intermediary calculations showing which CSA functions were not allocated were also not prepared.
- The inclusion or exclusion of costs, such as depreciation, was not consistent throughout the CSAs.
- The written methodology was not sufficiently detailed to provide a step-by-step instruction on constructing the Plan and identifying areas that may need to be adjusted when changes occur within CSAs. A step-by-step methodology would strengthen internal control over Plan's preparation. The methodology was copied from the previous year without determining whether it was appropriate.
- The Plan submitted to DCA showed total allocation amounts for debt management and other unallocable functions within the Office of the State Treasurer and Receiver General as \$158,652 and \$7,117,895. The supporting documentation showed the amounts were \$683,856 and \$6,592,691, respectively, a variance of \$525,204 between categories.

Included in Section II of the Agreement, are services that are furnished and billed to user departments. Some of these services such as Unemployment Insurance, Medicare tax, Universal Health Insurance, the Liability Management and Reduction Fund - and the fringe benefit rate, which includes group insurance, pension costs and terminal leave - are administered by the Office. Other services, such as motor vehicles, the data center and state auditor costs are administered by other departments. OMB Circular A-87 and ASMB C-10 *Cost Principles and Procedures for Developing Cost Allocation Plans and Indirect Cost Rates for Agreements with the Federal Government*, the implementation guide (Guide) for Circular A-87, specifies certain minimum documentation in Sections 4.5.1, 4.5.2 and 4.7 of the Guide, which must be prepared for internal service funds and other Section II billed services that are charged to federal awards. The Office did not prepare an accumulated earnings statement as part of its reconciliation of revenues to expenditures for Unemployment Insurance, Medicare, Universal Health Insurance and the Liability Management and Reduction Fund. Office personnel indicated that this type of documentation had not been requested by DCA in the past.

**Office of the Comptroller  
Findings on Compliance with Rules and Regulations**

**Finding Number 17: Documentation Supporting the Statewide Cost Allocation Plan Needs Improvement (continued)**

A review of the reconciliations for Unemployment Insurance (UI), and Universal Health Insurance (UHI) disclosed that the distribution of costs between UI and UHI had a \$599,183 variance between those two accounts, which would affect their accumulated earning statements. In addition, the reconciliation for the Liability Management and Reduction Fund did not include revenue of \$39,864 brought forward from a prior year. Not including prior year unspent revenue would result in an understatement of accumulated earnings.

The exact impact on Federal programs for these items could not be determined. The Office has stated it plans to perform a complete review of the FY2005 Plan and revise their procedures where necessary.  
*(Unknown Federal Programs; Fiscal Year 2003 Single Audit Finding 30)*

**Recommendation**

The Office should continue its efforts to ensure that all costs and revenues applicable to each central service agency are reconciled to the Plan. Any CSA function that is not included in the final allocation should be indicated. In addition, the written methodology should describe an overall approach of which specific cost elements will and will not be included for all CSAs and what areas should be considered in the future, thereby providing guidance when changes occur within central service agencies. Finally, all required documentation should be prepared for any Section II costs for which the Office has responsibility

**Department Corrective Action Plan**

The 2004 Plan, which was the plan under audit, was submitted to the federal cognizant agency in advance of the FY2003 Single Audit findings publication. As a result, the 2005 Plan contains adjustments for this activity and additional documentation needed to substantiate amounts. The 2005 Plan also was the result of a top to bottom six-month review by this Office. We have already started on the 2006 Plan and intend to improve on its documentation even further.

Responsible person: Marybeth Shaughnessy – Newell, Fred DeMinico  
Implementation date: Has been implemented

## **Division of Unemployment Assistance Background**

The Division of Unemployment Assistance (Division) formerly known as the Division of Employment and Training (DES) falls under the Department of Labor and Workforce Development (DLWD). Chapter 26 of the Acts of 2003 divided DES into two divisions, the Division of Unemployment Assistance (DUA) and the Division of Career Services (DCS). The DUA administers the Employment and Training Law as detailed in MGL, Chapter 151A. In November of 2003, DLWD delegated the authority to manage and administer the Workforce Investment Act (WIA), which superceded the Job Training Partnership Act, to DCS. Chapter 149 of the Acts of 2004 officially denoted DCS as a division of DLWD.

The DUA is responsible for prompt payment of unemployment insurance benefits, employment training services for eligible claimants, matching job seekers with appropriate jobs, and processing revenue collection and payments. DUA is primarily supported by federal funding and some interdepartmental service agreements with other state agencies.

The DCS oversees the Commonwealth's network of One-Stop Career Centers that assist businesses in finding qualified workers and provide job seekers with career guidance as well as referral to jobs and training. For FY2004, the DUA/DCS expended approximately \$2.71 billion of which \$2.69 billion were payments made under various federal programs.

The federal funding to this Division is detailed in the accompanying Schedule of Expenditures of Federal Awards.

The Division's major federal programs were:

<u>CFDA #</u>	<u>Federal Program Description</u>
17.225	Unemployment Insurance Program
17.258	WIA Adult Program
17.259	WIA Youth Activities
17.260	WIA Dislocated Workers

No findings resulted from our audit of these federal award programs.

## **Department of Education Background**

The Department of Education (Department) is the state agency responsible for administering the laws and regulations pertaining to elementary and secondary education, for distributing state and federal funds to local educational agencies, and for improving the quality of education for all public school students in the Commonwealth. The primary responsibility for the operation of schools rests with local and regional school committees. The Department carries out its mandate by providing assistance and funds to the schools, by setting standards, by administering regulations, and by collecting data on the condition of education.

During FY2004, the Department administered approximately \$3.8 billion of state funds, and approximately \$600 million of federal funds.

The federal funding to this Department is detailed in the accompanying Schedule of Expenditures of Federal Awards. The Department's major programs were:

<u>CFDA#</u>	<u>Federal Program Description</u>
84.010	Title I Grants to Local Education Agencies
84.027	Special Education – State Grants
84.173	Special Education – Preschool Grants
84.367	Improving Teacher Quality – State Grants
10.558	Child and Adult Food Care Program
10.553	School Breakfast Program
10.555	National School Lunch Program
10.556	Special Milk Program for Children
10.559	Summer Food Service Programs for Children

## Department of Education Findings on Compliance with Rules and Regulations

### **Finding Number 18: Inadequate Administrative Expenditures Procedures**

The Department of Education (Department) does not have adequate review and approval procedures in place to prevent or detect unallowable charges to federal grants.

The Department has described the control activity for charges to federal programs to be the review and approval of all expenditures by the federal program manager or the fiscal staff assigned to the program. The program managers and fiscal staff have been trained to perform the reviews, but the process has not yet been documented as formal policies and procedures.

Twenty administrative expenditures were tested from four major federal programs. Lack of proper approval was noted for four of the expenditures tested.

One selection, in the amount of \$54 for travel, was charged to the Title I program. There is no evidence that the travel was related to Title I. This expenditure was not approved by the Title I program manager nor by the Title I fiscal liaison. Instead, the Deputy Commissioner of the Department approved it. In addition, travel reimbursement was not included in the contract that supported the payment and the payment was charged to an object code for personal service of an intern that does not allow for travel costs. The contract supporting the encumbrance that was referenced for this transaction was reviewed but it lacked any approval by the Title I staff. Consequently, the likely error is for the entire amount paid to the intern (\$4,387), all of which was charged to Title I without approval by the Title I staff.

Another selection in the amount of \$303 was for telephone charges for international calls made outside of normal business hours with no support that they were for allowable activities. The calls were clearly identified on the billing as international calls with the time and date of the calls. The invoice for this particular expenditure was approved without proper review to determine if these costs were allowable. The process described to the auditors as indicated above, as the policy for approval of expenditures, is that the federal program manager or the program fiscal liaison reviews and approves the payments. This expenditure was charged to Title I, but was not approved by either the federal program or fiscal liaison staff; it was reviewed and approved by a staff member familiar with telecommunications. It appears that, in practice, the general administrative expenditures are reviewed and authorized by managers familiar with the administration of the Department rather than federal program or fiscal managers. The likely error cannot be easily quantified but it should be noted that the individual reviews and approves all telecommunications expenditures.

Two selections totaling \$258 were for employee travel expenditures that were approved by individuals not having the proper authority for approval. There is a list of authorized signatories for each grant but it was not used as part of the review of these expenditures. The travel was determined to be an allowable activity for the Special Education Program and therefore these costs are not questioned.

There is a control activity in place that all expenditures are reviewed and approved by a member of the finance unit prior to entry into the MMARS system for payment. Each of the above did bear the signature of the individual responsible for this final review. However, the final review failed to detect the errors cited above. The 20% rate of undetected errors found in the sample of transactions tested indicates the possible errors in the entire population, while not easily quantified, could exceed \$10,000. (*Department of Education - Title I Grants to Local Education Agencies 84.010; Special Education 84.027; Fiscal Year 2001; 2003 Single Audit Finding 34*)

## **Department of Education**

### **Findings on Compliance with Rules and Regulations**

#### **Finding Number 18: Inadequate Administrative Expenditures Procedures (continued)**

##### **Recommendation**

A recommendation was made in 2001 that policies and procedures be established to provide assurance that all state and federal procurement laws and regulations were adhered to. The Department should continue to develop and document these policies and procedures. They should be clear as to the control activity of review and approval of federal expenditures by specific positions within the Department. In addition, the list of proper authorized signers for the approval of expenditures should be used and adhered to more carefully.

##### **Department Corrective Action Plan**

The first two of the exceptions mentioned in this finding were items that were processed using our budgeting method for allocating costs relating to multiple programs. This practice has ceased starting with FY2005 with the implementation of our cost allocation plan. Therefore, these two expenses were not processed by our normal system of authorizations by program fiscal liaisons and administrators. Regarding the phone expenses for international calls, while we do have these types of calls on occasion, upon further review it appears that these instances did not meet those criteria. We have discussed with the appropriate staff to ensure greater vigilance with the review of these invoices.

Regarding the travel vouchers authorizations. The individuals that approved the travel vouchers were authorized as supervisors to approve travel but not the corresponding expense vouchers. We are reviewing the approval levels for these instances and will either change the signature approval level for expenditures or re-emphasize to all what the process is and who is authorized for certain functions. Either way, we will work to ensure proper approvals are secured prior to paying invoices.

We will continue to provide staff training and update procedures when applicable.

Responsible person: Anthony DeLorenzo

Implementation date: January 1, 2005

## Department of Education Findings on Compliance with Rules and Regulations

### Finding Number 19: Cost Allocation Plan Needed

The Department of Education (Department) does not have an approved cost allocation plan in place to properly charge and classify the administrative expenditures necessary to manage its federal and state programs.

Twenty administrative expenditures were tested from four major federal programs. Two of the twelve non-payroll administrative expenditures totaling \$3,415 were charged to federal programs without an approved cost allocation plan. The lack of a cost allocation plan could lead to costs that exceed \$10,000 in total to be charged to federal grants without proper support.

Discussions with Department officials disclosed that central general and administrative technology and central technology administrative expenditures that benefit all of the Department's programs are often totally charged to federal programs based on budgeted amounts or because no state funds are available to pay the bills. While charging federal programs for a portion of these central administrative expenditures may be appropriate, the charges should be made in accordance with an approved cost allocation plan so that the federal programs are only charged in proportion to the benefit received.

During FY2003 the Department issued a Request for Response to hire a consultant to prepare a cost allocation plan. The plan has since been completed and submitted to the U.S. Department of Education (USDOE) for approval. Although the plan has now been approved, it was not in place and approved during FY2004. (*Department of Education – Title I Grants to Local Education Agencies 84.010, Improving Teacher Quality State Grants 84.367; Department of Agriculture – Child and Adult Food Care Program 10.558, National School Lunch Program 10.555; Fiscal Year 2001; 2003 Single Audit Finding 34*)

### Recommendation

The Department should start following the methodology in the approved cost allocation plan when charging central administrative expenditures to federal programs. In addition, as recommended in the previous finding, the Department needs to develop and document policies and procedures to adequately review and approve expenditures for accuracy and allowability before they are charged to the pool of costs that will ultimately be recovered through the cost allocation plan. Costs that are unallowable to be charged directly to a federal program are also unallowable to be charged indirectly through a cost allocation plan.

### Department Corrective Action Plan

As stated in this finding, the Department has already developed a Cost Allocation Plan (CAP) that was reviewed by the Massachusetts Comptroller's Office and was approved by USDOE in May of 2004. This approval occurred too late to implement in FY 2004.

The implementation of this CAP and the corresponding new indirect cost rate along with the Department's ability to retain a portion of these indirect funds will allow the Department to stop its past practice of direct charging federal funds for indirect activities.

Responsible person: Anthony DeLorenzo  
Implementation date: January 1, 2005

## **Department of Education Findings on Compliance with Rules and Regulations**

### **Finding Number 20: Vocational Education Program Maintenance of Effort Requirements not Met**

The Department of Education (Department) did not meet the maintenance of effort requirements for the administration of the Vocational Education Program. The Department missed the maintenance of effort (MOE) requirement by \$1,429,789.

According to Federal regulation 34 CFR 403.181(c), a State must provide from non-Federal sources for State administration under the Perkins Act, an amount that is not less than the amount provided by the State from non-Federal sources for state administrative costs for the preceding fiscal or program year.

The Commonwealth of Massachusetts, like most states, is having financial problems and as such did not have the funds available as in prior years to provide for the administration of the Vocational Education Program. (*Department of Education – Vocational Education, Basic Grants to States 84.048; Fiscal Year 2003 Single Audit Finding 36*)

### **Recommendation**

The Department should work with state administration and finance officials to seek the funding necessary to meet federal requirements.

### **Department Corrective Action Plan**

The Commonwealth did not have the funds available to meet the maintenance of effort requirement during FY2004. We were able to meet our matching requirement for the year. Aware of the situation, in March 2004, we requested a waiver from the United States Department of Education (USDOE) for the year in question. We have subsequently submitted requested information regarding this waiver and are still awaiting word on this subject. We have seen an increase in funding for FY2005, which should alleviate this issue.

Responsible person: Jeffrey Wheeler  
Implementation date: October 1, 2004

## Department of Education Findings on Compliance with Rules and Regulations

### **Finding Number 21: Reallocation of Title I Funds in Excess of the 15% Carryover and Measurement of Local Education Agency (LEA) Cash Needs Improvement**

The Department of Education (Department) did not properly reallocate the funding that was in excess of the 15% carryover allowed for each LEA, as required.

*An LEA that receives \$50,000 or more in Title I, Part A funds cannot carryover beyond the initial 15 months of availability more than 15 percent of the Title I, Part A funds. An SEA (State Education Agency) may grant a waiver for the percentage limitation once every three years if the request is reasonable and necessary. An SEA may also grant a waiver in any fiscal year in which supplemental appropriations for Title I become available for obligation.” (Section 1127 of ESEA (20 USC 6339)).*

The Department provided a worksheet to support the calculation of the allowable carryover amount for each LEA, the expenditures of the LEA, calculation of the amount for carryover into FY 2004 and the amount available for reallocation in FY 2004. One of the five LEAs selected for testing appeared to exceed the allowable carryover and had amounts calculated as available for reallocation totaling \$551,468. In total, nine LEAs had excess carryover of \$635,842. None of these amounts were reallocated.

Department personnel explained that the Department grants the LEAs an additional month after the grant year to spend down any excess above the 15% allowed. They further explained that LEAs are often late in filing their final expenses for the year so that determining the actual amount of the carryover is difficult. They further explained that they unsuccessfully attempted to contact the LEAs in order to determine whether a waiver was needed or whether the LEA had actually utilized the funds during the initial 15 months of availability.

The report provided by the Department to enable us to determine its compliance with the 15% carryover provision led us to also determine that, as of June 23, 2004, LEAs had in excess of \$3million of cash on hand remaining from the FY2003 grants. Department officials stated that they believe this showing of excess cash is more of a reporting issue than actual cash in the hands of the LEAs; i.e., the information reported by the LEAs is not accurate, the cash has been expended. As explained in Finding Number 22, Department officials believe that the quarterly allotments to LEAs comply with United States Department of Education (USDOE) regulations. In addition, they explain that the LEAs have 27 months to expend grant funds and that, while they understand how this reported cash on hand may conflict with cash management regulations, they believe the Department is in compliance with all applicable federal regulations. (*Department of Education – Title I Grants to Local Educational Agencies 84.010; Fiscal Year 2003 Single Audit Finding 40*)

### **Recommendation**

The Department must create a control environment for the management of federal grants that includes a timeline, verifications and detailed supervisory review of complicated work. The Department did improve its procedures to measure the 15% carryover; however, it still did not reallocate the excess carryover. A checklist or other tool must be developed and provided to the individual with overall responsibility for the fiscal management of the grant. This tool should spell out the many tasks that must be completed. More importantly, the checklist must include a strict deadline date for LEAs to submit documentation supporting expenditures in order to reallocate the funds over the 15% carryover limit before the end of the grant year. Both the individual performing the task and the manager responsible for reviewing it should sign the checklist.

## **Department of Education Findings on Compliance with Rules and Regulations**

### **Finding Number 21: Reallocation of Title I Funds in Excess of the Title I 15% Carryover and Measurement of LEA Cash Needs Improvement (continued)**

#### **Recommendation (continued)**

The Department also needs to definitively determine whether the LEAs actually have excess cash on hand or are reporting inaccurately. If it is determined that it is excess cash, the Department needs to request that the LEA return the cash or offset the next payment to the LEA. LEAs that are not spending all of their Title I funds are depriving those LEAs who are and who could use the additional reallocation. If it is determined that the LEAs are reporting inaccurately, the Department needs to stress the importance of accurate reporting.

#### **Department Corrective Action Plan**

The finding notes that the auditors identified, from Department reports, \$635,842 in excess carryover had not been reallocated. Although appropriate waivers were granted for those funds, and none of it was required to be reallocated, the Department acknowledges that that information was not made available to the auditors in a timely manner.

The current procedures for tracking Title I carryover will be reviewed and adjustments made as needed. Title I and Grants Management have discussed and agreed on new steps to ensure and document that all recipients submit final expenditure reports in a timelier manner. If it is determined that recipients have excess carryover and no waiver can be granted, those funds will be reclaimed and made subject to the reallocation process no later than mid-January following the reporting cycle.

The Title I director will begin discussion with USDOE officials to clarify the concerns raised by the auditor regarding the carryover provision as it relates to grant recipients and the perception of excess cash.

Responsible person:     Barbara Solomon, Title I Director  
                                   Ron Honesty, Director, Grants Management  
Implementation date:    November 15, 2004

## **Department of Education Findings on Compliance with Rules and Regulations**

### **Finding Number 22: Questionable Advance to a Local Education Agency (LEA)**

The Department of Education (Department) did not follow the procedure established by the Grants Management Unit for the issuance of a grant payment to a Local Education Agency.

Department policies and procedures require that all "special requests" (i.e. for grants over \$25,000, a request for more than 1/4 of the grant) for payments from LEAs must have a written justification and be reviewed by the payment supervisor or the administrator before processing. In a review of 40 payments to LEAs for this grant, one was a "special request". Contrary to Department policy, it was entered, processed, and paid without the attention of a supervisor or manager. When brought to the attention of the head of the grants management unit, he explained that the "special request" was not of a nature that should have been approved based on the documentation provided by the LEA.

The LEA was paid an amount equal to 3/4 of the annual award in February 2004. The LEA had received its first 1/4 of the annual award amount in September 2003. In these two payments 100% of an award for the grant period July 1, 2004 to August 31, 2004 was paid six months before the end of the period. The LEA's February 2004 request did not provide support that the LEA had "immediate" need of the funds or what strategies were taken to "minimize the time elapsing between the transfer of funds and distribution by the subgrantee" as required by 34 CFR Section 80.21 (b) & (c).

The "special request" provision allows LEAs to request funds outside of the Department's usual policy of distribution of funds - 1/4 at the time of the award and quarterly thereafter based upon the LEA requests (Form RF-1) for funds. These "normal" requests for funds are supported by the actual grant spending to date and an estimate of need. Department officials believe that this long time practice meets the requirements of 34 CFR Section 80.21 cited above. However, 34 CFR 80.21 also references Treasury regulations 31 CFR Part 205 which contain the Cash Management Improvement Act (CMIA) regulations. The Commonwealth, like other states, has a CMIA agreement with the U. S. Treasury. The USDOE programs included in the Single Audit are included in this agreement and the federal funds are drawn from the Treasury for the programs on a reimbursement basis (average clearance pattern funding technique). Since subrecipients (LEAs) must "conform substantially to the same standards of timing and amount as apply to the pass-through entity", payment six months in advance seems to clearly be at odds with the standard. (*Department of Education - Special Education 84.027*)

### **Recommendation**

The Department should reemphasize to its staff the existence of the procedure and controls established for the payment of special requests and consider whether additional controls are needed for the detection of transactions that were processed without proper approval. The size of the payment should make it easily identifiable as one needing additional review after the fact. The Department should amend its "special request" policies to require LEAs to provide documentation that the funds have already been spent, thus seeking reimbursement for allowable costs, or that the funds will be spent in the very near term. The U. S. Treasury regulations suggest that advances should be spent within 3 business days.

## **Department of Education Findings on Compliance with Rules and Regulations**

### **Finding Number 22: Questionable Advance to a Local Education Agency (continued)**

#### **Recommendation (continued)**

In conjunction with the recommendation in Finding Number 21, regarding the determination of excess cash at the LEAs, we believe the Department needs to review the federal regulations to determine whether its current policy of quarterly allotments meets the federal “minimize the time elapsing between the transfer of funds and distribution by the subgrantee” standard. If necessary, the Department should consult with USDOE to determine whether the program regulations which allow LEAs to expend the grant funds over 24 or 27 months also allows the LEAs to have cash on hand in excess of their immediate needs.

#### **Department Corrective Action Plan**

As explained to the auditors, the request in question had limited information that required further research and review before being processed. The auditor noted the grantee was paid the balance of the grant, an amount equal to  $\frac{3}{4}$  of the total. Based on the initial information provided by the grantee, it would have been more reasonable to expect a payment equal to  $\frac{1}{2}$  the remaining balance. The staff person responsible has been given retraining on the required procedures regarding authorization.

The existing policy and procedures for payments have been reviewed with all pertinent staff. Emphasis was given to the importance of proper review, documentation and authorization of all “special requests”.

It was also made clear to the auditor that Department procedures are designed to meet the federal standard to “minimize the time elapsing between the transfer of funds and distribution by the subgrantee.”

Responsible Person: Ron Honesty, Director, Grants Management  
Implementation Date: September 21, 2004

## Department of Education Findings on Compliance with Rules and Regulations

### **Finding Number 23: Improvements Needed in the Calculation of Adequate Yearly Progress (AYP)**

The Department of Education (Department) has worked diligently to implement the changes required in the Title I program as a result of the amendment by the No Child Left Behind Act of 2001 (NCLB). A recent review by the U. S. Department of Education (USDOE) of the Student Achievement and School Accountability (SASA) Programs indicates that of 39 critical monitoring elements the Department met, or exceeded, the requirements for 35. Of the four findings included in the report based on that review, three were found at the Local Educational Authority (LEA) level and one at the Department level. The one Department level finding identified requires the Department to amend its calculations to include the "other indicator" to more fully comply with 34 CFR §200.19(a) for identifying the AYP of schools and LEAs needing improvement. AYP is calculated as part of the process to determine those schools in need of improvements.

The audit steps required in the A-133 Compliance Supplement for Title I include the review of how:

*...the SEA collects, compiles, and determines the accuracy of information obtained about the number and names of schools and LEAs in need of improvements and reports this data to USDOE and the public.*

The Department has procedures in place to develop the information and does report it to USDOE and the public. The reports do rely on the measurement of AYP and, according to the federal report, the process of developing the AYP needs improvement. The Department has agreed to make changes by including the "other indicator" in the method used to calculate AYP to better meet the explicit federal requirements. The change in method is not likely to change the resulting list of schools in need of improvement.

The LEA level areas found in need of improvement were in the elements of hiring and retaining highly qualified staff, the completeness of school improvement plans, and the development of school-wide programs. (*Department of Education – Title I Grants to Local Educational Agencies 84.010*)

### **Recommendation**

The Department responded to the federal report in an August 2004 letter. It would seem that the "further actions required" and the Department's proposed resolutions are clearly documented. The Department should ensure that any changes required are implemented and that all LEAs are aware of the requirements highlighted in this federal report.

### **Department Corrective Action Plan**

This finding relates to a draft report of a monitoring visit performed by USDOE in March of 2004. We have already agreed to amend our AYP determination process to comply with the USDOE regulatory requirement that the additional indicator be a factor in determining AYP for all schools. We have revised our workbook accordingly. Final approval is expected after USDOE completes their review of the revision and issues a final report.

Responsible person: Juliana Dow, Accountability  
Implementation date: December 31, 2004

## **Department of Education Findings not Repeated from Prior Years**

1. The Department had improved its system for charging and adjusting salaries charged to federal programs. Further improvements, however, were still needed. The Department received additional clarification from the US Department of Education approving the salary adjustment to the total federal program rather than on an individual-by-individual basis. *(Fiscal Year 2003 Single Audit Finding 35)*
2. The Department did not have a system in place that allowed for the identification and classification of expenditures to document that the Special Education earmarking requirements for state set-asides were met. The Department developed a system that adequately identified and classified expenditures to document that earmarking requirements were met. *(Fiscal Year 2003 Single Audit Finding 37)*
3. The Department needed to continue to improve the process and procedures used to determine LEA compliance with the maintenance of effort requirements. The Department improved the timeliness of its analysis of the End-of-Year reports so that it could determine LEA compliance with the maintenance of effort requirements. *(Fiscal Year 2003 Single Audit Finding 38)*
4. The Department did not have adequate control procedures in place to verify the amounts included in federal reports. The Department improved its control procedures to verify the amounts included in federal reports and no similar errors were noted in the 2004 audit. *(Fiscal Year 2003 Single Audit Finding 39)*
5. The Department needed to increase the communication and interaction between units responsible for awarding and disbursing grants to LEAs. The communication and interaction between units within the Department did increase and improve and no similar problems in amounts were noted during the 2004 audit. *(Fiscal Year 2003 Single Audit Finding 41)*
6. For the fiscal year ended June 30, 2003, the Department did not monitor the Improving Teacher Quality State Grants (Title IIA) federal awards to LEAs. The Title IIA program has been included in the Grants Monitoring Checklist and the Title I monitoring tool. Additionally, Title IIA has been included in the monitoring schedule. *(Fiscal Year 2003 Single Audit Finding 42)*

## **Department of Revenue/Child Support Enforcement Background**

The Division of Child Support Enforcement (Division) is organizationally part of the Commonwealth's Department of Revenue and receives its mandate pursuant to Massachusetts General Laws Chapter 119A. The Division is the single state agency within the Commonwealth that is designated as the IV-D agency pursuant to Title IV, Part D of the Social Security Act. In accordance with the provisions of the law, the Division provides IV-D services to families, whether or not they are recipients of public assistance, to establish, modify, and enforce child support obligations. The services include location of obligees and obligors, the establishment of paternity, the establishment, modification, and enforcement of child support orders, including orders for health care coverage, and the collection and disbursement of support payments.

During FY2004, the Division's total expenditures were approximately \$63 million.

The federal funding to the Division is detailed in the accompanying Schedule of Expenditures of Federal Awards. The Division's major program was:

<u><b>CFDA #</b></u>	<u><b>Federal Program Description</b></u>
93.563	Child Support Enforcement

## Department of Revenue/Child Support Enforcement Findings on Compliance with Rules and Regulations

### Finding Number 24: Ineffective Case Tracking and Management System

The Department of Revenue/Division of Child Support Enforcement (CSE or Division) needs to improve its system for tracking and managing child support cases. Of the 25 case files selected for testing, 14 cases were not administered in accordance with federal regulations.

(A) A violation of 45 CFR 303.2 was noted in 11 of the 25 cases tested. In accordance with 45 CFR 303.2, upon complete referral or the submission of a complete application, the case must be assessed and additional necessary information obtained within 20 days. In all 11 cases, a review of the respective cases' Records of Support Action disclosed that necessary information was not obtained within twenty days after submission of the complete application. In all 11 cases, the assessment did not take place until respectively 73, 52, 45, 113, 38, 47, 63, 53, 44, 73 and 89 days after receiving the respective applications, which exceeds the 20-day window for case assessment.

(B) A violation of 45 CFR 303.4, establishment of support obligations was noted in three of the 25 cases tested. In accordance with 45 CFR 303.4, within 90 calendar days of locating the alleged father or non-custodial parent (NCP), regardless of whether paternity has been established, an order for support must be established or the proceedings necessary to complete service of process to establish a support order and, if necessary, paternity, must commence. It was noted in all three cases whereby the location of the NCP was established, a court order to establish support was not issued within the stipulated 90 calendar days. In the first case, the location of the NCP was established in February 2004 and the "service of process" was not made until June 2004. In the second case, the location of the NCP was established in May 2004 but as of August 2004, CSE had not initiated a "service or process". In case three, the NCP was located in April 2003, but CSE did not initiate a "service of process" until October 2003.

The Division's 2004 Self-Assessment Review Report, required by federal statute, 42 USC 654.15, found similar violations regarding (1) the Establishing of Paternity and Support Orders—61 error cases of the 102 tested, (2) Case Closure—18 error cases of the 126 tested and (3) interstate services—62 error cases of the 145 tested. Overall, the Report found that the Division was compliant in five of the eight performance criteria and non-compliant in the three cited above. However, the Division's action (acceptance) rate decreased from 62% to 57% in the area of Interstate Services and from 93% to 86% in the area of Case Closure.

The Division's ineffective case tracking and management system suggests a weakness in the *Commonwealth of Massachusetts Enforcement Tracking System (COMETS)*, its comprehensive case tracking and management system, and/or a failure in enforcing and monitoring compliance with policies and procedures and laws and regulations, and may render its case management database unreliable. (*Department of Health and Human Services – Child Support Enforcement 93.563; Fiscal Year 1989; 2003 Single Audit Finding 43*)

### Recommendation

We recommend that the Division enforce its policies and procedures to comply with federal requirements governing case file review and administration, including periodic training for its caseworkers. Supervisors should also review the work performed by caseworkers to ensure that all case files are complete and accurate, that the Division's policies and procedures are followed, and that federal compliance requirements are met.

The Division's Internal Audit Unit should continue to review case files with all active files being reviewed at least once every three years. These reviews should be documented and any identified errors logged to include a description of the error, the follow-up procedures performed, and how these errors are ultimately resolved or corrected.

## Department of Revenue/Child Support Enforcement Findings on Compliance with Rules and Regulations

### Finding Number 24: Ineffective Case Tracking and Management System (continued)

#### Recommendation (continued)

The Division should continue to provide effective training for caseworkers, which focuses on adhering to federal requirements surrounding case file review and management.

#### Department Corrective Action Plan

CSE is undergoing a comprehensive business process redesign. CSE plans to redesign its organizational structure, workflow, and business processes to improve performance, make maximum use of human resources and information technology, reduce costs, and improve the quality of customer service. Our goal is to change how we handle cases so that parents know who is handling their cases and can get prompt answers to their questions. By promoting case ownership, we will assign responsibility for cases, reduce the volume of calls handled by our customer service bureau, and help ensure required actions are taken on cases in a timely fashion. Case ownership will address the errors cited in the audit, because the worker will have full responsibility for ensuring that the appropriate actions are taken on a timely basis. CSE expects to implement this case model within state FY2005.

To improve location for both pre-obligated and obligated cases, CSE has contracted with a vendor to gain access to more than 40 proven location databases, including all four credit bureaus and national locate databases such as Choicepoint and DCS-Amerfind, to find, retrieve, and verify information pertaining to case participants' addresses. Addresses have to be identified on multiple databases to be considered valid. The vendor will also utilize predictive dialing and direct mail as means of verification. Case participants without telephone numbers are sent letters requesting confirmation of their addresses by telephone or return mail response. The vendor will also provide unverified information on a case participant's employment, telephone number, assets, death, Social Security number, and date of birth.

Data will be exchanged between CSE and the vendor through an electronic file transfer protocol. When data is returned to the caseworker, the worker will determine the next necessary step. The contract will be effective November 2004; test files will be sent with initial returns expected in December. CSE is assessing the feasibility of importing the vendor locate data directly into COMETS for automated processing. CSE has also established a location workgroup to examine ways to streamline location processes.

CSE is engaged in a detailed system interface analysis with the Department of Transitional Assistance to improve the quality and transmission of data on public assistance cases. CSE will further automate the case creation process to comply with the twenty day assessment period. The analysis is due by January 2005.

Responsible person: Paul Cronin  
Implementation date: January 2005

## **Department of Revenue/Child Support and Enforcement Findings not Repeated from Prior Years**

1. The Department of Revenue/Division of Child Support Enforcement Commonwealth of Massachusetts Enforcement Tracking System (COMETS), its comprehensive case tracking and management system, was not in compliance with federal regulations resulting in a \$7.6 million penalty imposed by the federal government. The COMETS system is now in compliance with federal regulations and no penalties were assessed in FY2004. (*Fiscal Year 2003 Single Audit Finding 44*)

## **Department of Public Health Background**

The Department of Public Health (Department) protects public health through a wide variety of activities. The Department monitors the quality of the Commonwealth's health care facilities and regulates the environment, health, and sanitation of food, drugs, and other consumer products. Through its hospitals, it provides direct care services, inpatient hospital care, and education, with special emphasis on populations not adequately treated by the voluntary and private sectors.

Through its providers and various outreach programs, the Department provides a broad range of preventative and health promotion services. Environmental health education informs the public about hazardous substances in the workplace. The maternal and child health program offers specialized health care for high-risk infants to help curb infant mortality and prevent later health complications. Substance abuse services include education, counseling, and youth intervention programs. The Childhood Lead Poisoning Prevention Program provides in excess of 300,000 blood analyses annually to detect lead content. The AIDS Bureau provides AIDS testing, preventative education, and coordinates with the substance abuse services to raise public awareness of the relationship between AIDS and substance abuse. Other outreach operations provide blood pressure and cholesterol screening and nutritional information and training. They also immunize children and adults and monitor communicable diseases. Through the Special Supplemental Food Program for Women, Infants and Children, food supplements are made available to mothers and their children.

For FY2004, the Department administered approximately \$692 million. Of this amount, federal funds amounted to \$264 million.

The federal funding to this department is detailed in the accompanying Schedule of Expenditures of Federal Awards. The Department's major programs were:

<u>CFDA #</u>	<u>Federal Program Description</u>
93.959	Block Grants for Prevention and Treatment of Substance Abuse
93.268	Childhood Immunization Grants

## Department of Public Health Findings on Compliance with Rules and Regulations

### Finding Number 25: Independent Peer Reviews not Conducted

The Department of Public Health (Department) is not in compliance with the independent peer review requirements of the Block Grants for Prevention and Treatment of Substance Abuse (SAPT).

Under the requirements of 42 USC 300x-53(a); 45 CFR Section 96.136:

*The State must provide for independent peer reviews which assess the quality, appropriateness, and efficacy of treatment services provided to individuals. At least 5 percent of the entities providing services in the State shall be reviewed. The entities reviewed shall be representative of the entities providing the services. The State shall ensure that the peer reviewers are independent by ensuring that the peer review does not involve reviewers reviewing their own programs and the peer review is not conducted as part of the licensing or certification process.*

Department personnel indicated that they were aware of the requirement but were working under the assumption that this requirement would be phased out in FY2005 and therefore did not make any arrangements to provide for independent peer reviews for FY2004. Without these peer reviews an objective review of the quality, appropriateness and efficacy of the treatment services provided to individuals is missing. (*Department of Health and Human Services – Block Grants for Prevention and Treatment of Substance Abuse 93.959*)

### Recommendation

The Department should enter into an agreement with an independent contractor to provide independent peer reviews to comply with federal law and regulations.

### Department Corrective Action Plan

The Center for Substance Abuse Treatment Division of the Substance Abuse and Mental Health Service Administration has informed the Commonwealth that this requirement is likely to be eliminated in the next SAMHSA re-authorization. However, the regulation stands until then and compels States to comply with the requirement. The Department's Bureau of Substance Abuse Services is in the process of planning the independent peer review process utilizing providers/vendors for the current fiscal year. Two options for carrying out this requirement are under consideration. The process will be completed prior to June 30, 2005.

Responsible person: Carolyn Castro-Donlan  
Implementation date: Immediate

## **Department of Public Health Findings not Repeated from Prior Years**

1. The Department of Public Health (Department) reported an incorrect amount on the Federal Cash Transaction Report for the quarter ended December 31, 2002. A monthly reconciliation process has been implemented to assure that grant expenditures tie to MMARS. No similar errors were noted in the FY2004 single audit. *(Fiscal Year 2003 Single Audit Finding Number 45)*
2. The Department and the Executive Office of Health and Human Services (EOHHS) did not file the Financial Status Report in time. The Department prepares the report and reviews it with the Director of Accounting at EOHHS prior to submission. All reports reviewed during the FY2004 single audit were filed on a timely basis. *(Fiscal Year 2003 Single Audit Finding 46)*
3. The Department did not issue management decisions on audit findings disclosed at its SAPT subrecipients in a timely manner. All subrecipient audit reports reviewed during the FY2004 single audit had management decisions in a timely manner. *(Fiscal Year 2003 Single Audit Finding 47)*
4. The Department did not fully implement the corrective action plan to ensure that the maximum level of spending under the SAPT Block Grant for the Penal and Correctional Facilities was not exceeded. The Department completed implementing its corrective plan and the maximum level was not exceeded for FY2004. *(Fiscal Year 2003 Single Audit Finding 48)*
5. The Department's State Laboratory did not obtain all of the required medical license numbers from one of its service providers. All service providers reviewed during the FY2004 single audit had appropriate medical license numbers. *(Fiscal Year 2003 Single Audit Finding 49)*

## **Massachusetts Highway Department Background**

The Massachusetts Highway Department (Department), within the Executive Office of Transportation and Construction, plans, constructs and maintains the state highway system, consisting of approximately 9,505 lane miles of highway and 2,900 bridges. To accomplish this, the Department operates approximately 122 maintenance facilities located throughout the state, including administrative offices, garages, and repair and storage buildings. Most of the facilities are small and serve maintenance needs.

During FY2004, the Department administered appropriated funds of approximately \$86 million. In addition, the federal government on a reimbursement basis provided about \$325 Million.

The federal funding to the Department is detailed in the accompanying Schedule of Expenditures of Federal Awards. The Department's major program was:

<u>CFDA #</u>	<u>Federal Program Description</u>
20.205	Highway Planning and Construction

## Massachusetts Highway Department Findings on Compliance with Rules and Regulations

### Finding Number 26: Subrecipient Identification and Award Documents Need Improvement

The Massachusetts Highway Department (Department or Mass Highway) needs to improve its system for identifying and communicating to subrecipients, thereby ensuring compliance with the provisions of the Single Audit Act Amendments of 1996.

Section 7502 (f)(2) of the Single Audit Act Amendments of 1996 (Act), states that each pass-through entity shall provide subrecipients with the program name and identifying number as specified in the *Catalog of Federal Domestic Assistance* (CFDA) as well as the federal requirements which govern the use of such awards.

A subrecipient is an entity that expends federal awards received from a pass-through entity, such as the Department, to carry out a federal program. OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, the implementing regulations of the Act, indicates certain characteristics that should be considered in identifying subrecipients. For instance, subrecipients assume the responsibility for making programmatic decisions as well as complying with applicable federal requirements. Their performance is measured in terms of meeting the federal program's objectives rather than just providing goods or services to the Department. Vendors are those entities, which provide goods and services to many different purchasers within their normal business operations. They operate in a competitive environment; and/or provide goods or services that are ancillary to the operation of the federal program. Vendors are not subject to Single Audit requirements. Not informing the subrecipients that they are receiving federal awards can affect the type of audit they should obtain.

During a review of some new agreements the Department has with other state and municipal governments, it was noted that in two (2) instances the Department treated these entities as vendors. Additionally, one (1) other older agreement extended during the year with an increase in funds was also treated as a vendor. The funds awarded under these agreements had the characteristics of a pass-through-subrecipient relationship. Only one of the four (4) agreements reviewed contained the program name or identifying number from the CFDA.

While the Department's Bureau of Transportation Planning and Development has made an effort to identify subrecipients, there continues to be some uncertainty in other bureaus as to the type of activity and entity that may qualify as an award to a subrecipient. Payments to other governments and non-profit organizations are often coded as design or construction indicating that the Department is undertaking those activities rather than delegating the responsibility to those entities. In addition, award documents do not inform recipients of all applicable requirements, when the Department plans to seek reimbursement under federal programs. The Department estimated that approximately \$2.7 million or 1 percent of the \$442 million in payments made under the State Roads and Bridges Program were made to other governments and non-profit organizations in FY2004 that could be construed as subrecipients. (*Department of Transportation – Highway Planning and Construction 20.205; Fiscal Year 1999; 2003 Single Audit Finding 50*)

## Massachusetts Highway Department Findings on Compliance with Rules and Regulations

### Finding Number 26: Subrecipient Identification and Award Documents Need Improvement (continued)

#### Recommendation

All new and amended contracts with other governments and non-profit organizations should be reviewed by one bureau within the Department to ensure all federally-funded agreements or extensions the Department enters into are properly classified as either vendors or subrecipients, as defined by OMB Circular A-133 (Circular). This review would also determine whether all the agreements contained contract language, which includes the program name and identifying number for the various types of awards it passes through, as well as the applicable federal requirements. Additionally, upon execution of the contract, Audit Operations should receive notification of the subrecipient agreement in order to monitor whether any reports that are required under the Circular are received. Finally, the Department should work with the Office of the Comptroller to develop an object code, which will properly identify those subrecipients performing construction activities with pass-through funds, thereby ensuring that these types of agreements are properly identified in the Commonwealth's schedule of expenditures of federal awards.

#### Department Corrective Action Plan

MassHighway is using standard contract language in all subrecipient agreements, including program name, identifying CFDA number, and audit requirements, with a few exceptions as noted in the audit finding. One agreement that was cited in the audit for not containing the standard contract language for subrecipients was an amendment to an older agreement that did not contain the standard language. It was an omission on the contract manager's part not to include the standard contract language for subrecipients in the amended agreement. Additionally, MassHighway entered into two agreements with a public authority that were not identified as subrecipients. It was the opinion of the contract manager that these agreements were a vendor relationship, not a subrecipient. Planning and Highway Engineering will continue to make the determination as to whether a contract or agreement should be classified as a vendor or subrecipient. The Chief Counsel's office will verify that the contract language is appropriate for a subrecipient before it goes to the Commissioner for signature.

Responsible person: Sue Bristol  
Implementation date: November 1, 2004

## Massachusetts Highway Department Findings on Compliance with Rules and Regulations

### Finding Number 27: Monitoring of Davis-Bacon Compliance Needs Improvement

The Massachusetts Highway Department (Department) paid construction contractors before receiving certified payrolls. In addition, some payroll submissions did not contain a Statement of Compliance.

Title 29 Part 3 *Code of Federal Regulations* establishes the requirements for implementing the Davis-Bacon Act. Part 3.3(b), the *Weekly Statement with Respect to Payment of Wages* (Weekly Statement), indicates that each contractor or subcontractor engaged in the construction of a public work “shall furnish each week a statement [of compliance] with respect to the wages paid each of its employees engaged on work covered...during the preceding weekly payroll period.” Part 3.4 (a), “Submission of Weekly Statements and the Preservation and Inspection of Weekly Payroll Records” requires that the Statement of Compliance be either delivered or mailed to the Department by the contractor or subcontractor, within seven days after the regular payment date of the payroll period. Finally, the Department has a policy not to process and approve payment for work until the certified payrolls are submitted and reviewed.

In four of five invoices tested involving 83 pay weeks, it was noted that 34 contractors had not submitted both the Weekly Statement and the Statement of Compliance to the Department by the time the vendor was paid for that period. While most packages submitted were only a few days to a month late, in three (3) instances the submissions were six (6) months late.

For 14 of the 83 submissions, the package did not contain the Statement of Compliance. Eight (8) of 14 were subsequently provided but three (3) of these had no indication of which weeks were being certified.

Thirty (30) of the 34 contractors noted above that were late in submitting the Weekly Statement and Statement of Compliance related to the 3 prime contractors. Those prime contractors were working on the Central Artery/Tunnel Project under federal-aid project numbers STP-093-507-AC, NH-090-1-232-AC and STP-093-1-454-AC supervised by the Massachusetts Turnpike Authority. Department personnel indicated that it was difficult obtaining certificates on a timely basis. (*Department of Transportation – Highway Planning and Construction 20.205*)

### Recommendation

The Department should instruct those overseeing the Central Artery/Tunnel Project at the Massachusetts Turnpike Authority as well the Department’s Resident Engineers to ensure that all contractors and subcontractors submit their certified payrolls within seven days after the regular payment date of the payroll period. Construction quantity estimates should not be prepared for payment until the Department receives certified payrolls for the payment period in question.

### Department Corrective Action Plan

Our planned response to this finding is to have the Chief Engineer send out a letter to the Responsible Section heads outlining the importance of compliance with the Davis Bacon Act and attaching a copy of the Department’s SOP #CSD-28-03-1-000 dated 04/10/1998.

Responsible person: Sue Bristol  
Implementation date: November 1, 2004

## Massachusetts Highway Department Findings on Compliance with Rules and Regulations

### Finding Number 28: Inaccurate Recording of Payroll, Accrued Leave and Relocation Expenditures

The Massachusetts Highway Department (Department) did not properly record payroll and accrued vacation, which resulted in an under billing of \$130 to federal programs and an over accrual of vacation time. In another instance, there was an erroneous \$180 posting of relocation expenditures resulting in an under billing to the federal government.

In one (1) in five (5) individuals tested, the distribution of hours as reported by the employee on the timesheet did not agree with time recorded in the accounting system. Upon further investigation, it was noted that two other individuals within the same district office for the identical two pay weeks also had discrepancies between their time sheets and what was recorded in the accounting system.

The discrepancies in hours as noted are as follows:

	<u>Timesheet Hours</u>					<u>Recorded in Acct'g System</u>	<u>Net Difference</u>
	<u>Federal Charges</u>	<u>Other Regular</u>	<u>Vacation</u>	<u>Personal</u>	<u>Total</u>		
Employee #1	59.00	0.00	1.00	8.00	60.00	68.00	-8.00
Employee #2	24.00	0.00	0.00	8.00	24.00	37.06	-13.06
Employee #3	<u>65.50</u>	<u>0.00</u>	<u>6.50</u>	<u>0.00</u>	<u>65.50</u>	<u>72.00</u>	<u>-6.50</u>
	<u>148.50</u>	<u>0.00</u>	<u>7.50</u>	<u>16.00</u>	<u>149.50</u>	<u>177.06</u>	<u>-27.56</u>

The net impact to three (3) federal programs was an under billing of \$130 as follows:

		<u>Actual Dollars</u>			<u>As Recorded</u>	<u>Net Under - Billing</u>
<u>Project Number</u>	<u>Federal Charges</u>	<u>Plus: Fringe Benefit Rate at 23%</u>	<u>Total</u>			
Employee #1	STP-003-2-004-X00	\$ 812	\$ 187	\$ 999	\$ 961	\$ 38
Employee #2	BRZ-001-S-038-X00	682	157	839	775	64
Employee #3	IM-190-6-027-000	<u>1,004</u>	<u>231</u>	<u>1,235</u>	<u>1,207</u>	<u>28</u>
Total		<u>\$ 2,498</u>	<u>\$ 575</u>	<u>\$ 3,073</u>	<u>\$ 2,943</u>	<u>\$ 130</u>

**Massachusetts Highway Department  
Findings on Compliance with Rules and Regulations**

**Finding Number 28: Inaccurate Recording of Payroll, Accrued Leave and Relocation Expenditures (continued)**

The total difference in charging vacation time resulted in an \$85 over accrual as follows:

	Vacation Actual <u>Dollars</u>	As <u>Recorded</u>	Net Over- <u>Accrual</u>
Employee #1	\$ 14	\$ 14	\$ -
Employee #2	-	(185)	(185)
Employee #3	<u>100</u>	<u>-</u>	<u>100</u>
 Total	 <u>\$ 114</u>	 <u>\$ (171)</u>	 <u>\$ (85)</u>

Department staff indicated that one individual at a district office did not adequately check the data entered. In an unrelated test of relocation payments, it was also noted that one (1) of the five (5) items selected was a reclassification of expenditures from non-participating to participating. The amount of the journal entry posted was \$180 less than the actual expenditures resulting in an under billing to the federal government. Department personnel indicated that it was transposition error made in entering the data. (*Department of Transportation – Highway Planning and Construction 20.205*)

**Recommendation**

The Department should stress to all individuals entering payroll and other information the need to recheck their entries before posting them and require management review of the information before it is recorded in the accounting system. In addition, the Department needs to ensure that employees' leave records are updated when any corrections are made.

**Department Corrective Action Plan**

In a memo dated 4/5/01 to district highway directors from the director of administrative services, districts were instructed on procedural safeguards for the recording of payroll. The procedures require time and attendance to be viewed by an employee other than the one who did the data entry of payroll. These procedures were later incorporated into the internal control plan, which is available on the IntraWay. The payroll director will send out a reminder to district administrators regarding proper payroll procedures to prevent future errors in posting.

Responsible person: Sue Bristol  
Implementation date: November 1, 2004

## **Massachusetts Highway Department Findings not Repeated from Prior Years**

1. The Massachusetts Highway Department (Department) did not deposit the proceeds from the sale of property acquired with federal awards on a timely basis. In addition, there was a delay in transferring credits to the Massachusetts Highway Trust Fund. During the year, Right-of-Way, Fiscal, and Audit Operations strengthened procedures to ensure deposits and credits to the Highway Trust Fund were made on a timely basis. (*Fiscal Year 2003 Single Audit Finding 51*)

## **Department of Social Services Background**

The Department of Social Services (Department) established by Section 1 of Chapter 18B of the Massachusetts General Laws provides services to children and families who are at risk of, or have been victims of, abuse or neglect. The Department administers a comprehensive social services program. These services are administered through 28 area-based offices, and include counseling, protective services, parent aid and other in-home supports to reduce risks to children and provide legal and adoptive services. To ensure the children's well being, when necessary, the Department intervenes through court orders or voluntary agreements to place the child with foster parents or in group homes. During FY2004, approximately 10,000 children were living in foster care or some type of residential setting, either a group home or residential facility. When a child is removed from his or her home, the Department develops a plan to provide, as soon as possible, a long-term stable resolution. The Department also provides shelter and other services for battered women and their children.

For FY2004, the Department administered approximately \$720 million. Federal funds amounted to approximately \$253 million.

The federal funding to this Department is detailed in the accompanying Schedule of Expenditures of Federal Awards.

The Department's major federal programs were:

<b><u>CFDA #</u></b>	<b><u>Federal Program Description</u></b>
93.667	Social Services Block Grant
93.658	Foster Care – Title IV-E

## **Department of Social Services Findings on Compliance with Rules and Regulations**

### **Finding Number 29: Timeliness of Criminal Offense Record Information (CORI) Checks Needs Improvement**

The FY2003 single audit report disclosed that the Department of Social Services (Department) was not performing CORI checks within the required annual timeframes. Our current review disclosed that late CORI checks continue. Sealed or old records hinder the conduct of some CORI checks. The Department did not perform timely re-evaluations of CORI checks for persons providing foster care services under the Title IV-E Foster Care Program in six of the twenty-five cases tested as of June 30, 2004. The six CORI checks were completed 1, 4, 8, 13, 21 and 44 months after they were due to be completed. In addition, the review of the Department's Family Resource and Contracted Care monthly reports of foster care providers disclosed 133 providers with overdue or blank CORI records.

The Department developed a Continuous Quality Improvement Process (CQI) administered in each Department office – area, regional and central offices. This process was designed to assist the new Commissioner and management in assessing the quality of services, identifying best practices, and discussing and implementing new reform. The goals of the Continuous Quality Improvement Teams are to monitor, evaluate, and provide feedback to Department management on the performance of its system of care. A list of indicators to include in the CQI Process and the data sources available to measure the status of the indicators has been made available to senior management throughout the Department. Data on Family Resource Licensing is one of the many review indicators and the tool to measure the status of the Department's licensing of family resources. The Department, with input from management and caseworker personnel, has developed two monthly reports accessible on the DocDirect management reporting system maintained by the Department. One report is the DSS RPT 195 "Family Resource Report" and the second is the DSS RPT 196 "Contracted Care Report". The Area Office family resource workers and the Area Director are responsible for reviewing the Family Resource Report monthly and identifying cases due for annual home re-evaluations or licensing reviews. The report captures the evaluation/assessment history of all foster parents/foster homes by type and date and is updated on the 2<sup>nd</sup> day of the month by Region/by Area Office from data inputted to FamilyNet by the Area Office caseworkers. This report presents comprehensive data, which includes identifying the resource parent information, number of children in the home and the names of the children placed in the home. In addition, the report includes the CORI check date and outcome of the CORI review. The report delineates for each case the Home Study Date and Recent Approved Reassessment Date.

A review of these monthly reports provided to Area Office personnel disclosed the following:

1. The DSS RPT 195 "Family Resource Report" as of July 19, 2004 had 93 of 5,747 child foster care cases with overdue or blank CORI records involving 66 foster care providers. A review of the CORI check records for the 66 providers disclosed that 11 were blank, 53 were overdue less than 1 year; 1 was overdue more than 1 year and less than 2 years; and 1 was overdue more than 4 years and less than 5 years.
2. The review of DSS RPT 196 "Contracted Foster Care" as of June 2, 2004 disclosed 1,085 CORI records for providers with children in placement, 14 were blank and 53 had overdue CORI checks including 48 less than 1 year overdue; 3 overdue over more than 1 year and less than 2 years; 1 overdue more than 2 years and less than 3 years; and 1 overdue more than 3 years and less than 4 years.

Through the FamilyNet system, family resource workers in department area offices track when CORI re-evaluations are due and are required to electronically submit requests to the central office CORI unit to complete the background check. Our review disclosed that the family resource worker did not always notify the unit when a CORI check was due.

## Department of Social Services Findings on Compliance with Rules and Regulations

### Finding Number 29: Timeliness of CORI Checks Needs Improvement (continued)

The Department is required to perform criminal background checks on all new hires and an annual re-evaluation of individuals and families seeking or providing services as foster family resources. Federal regulation, 45 CFR 1356.30(a) and (b), requires that the foster family home provider must have satisfactorily met a criminal records check with respect to prospective foster and adoptive parents. Under Massachusetts regulation, CMR 110-7.113, the Department is required to “re-evaluate foster parents and foster homes annually and request criminal record and Central Registry (an in-house database that tracks child abuse and neglect cases) checks for adult household members”. Additionally, the CORI process is required during various stages of an eligible foster care provider’s term with the Department. First, the prospective foster or pre-adoptive family must complete an initial eligibility screening process. This process determines whether the individual who is interested in serving as a family resource and the members of her/his household age fourteen years and older are eligible to apply for consideration as a prospective resource provider. Secondly, the prospective foster or pre-adoptive family must complete a home study evaluation. The home study evaluation is performed to pre-qualify the home and applicant to serve as a family resource. Lastly, annual re-evaluations are performed for current foster or pre-adoptive families to ensure the household continues to be eligible for providing services.

In addition, the CORI department now receives a monthly report of CORI checks due for the month including overdue records, which is monitored by the CORI Director. Our review of the June 2004 report noted two provider homes with two children that had sealed CORI records and five provider homes with six children that had CORI records on old court microfiche records not received by the Department.

The Department must submit a request for the sealed or microfiche court records to evaluate whether the home is a proper placement for the child. Department personnel stated that requests for microfiche records require the resources of the Criminal History Systems Board to search old records and sealed CORI record requests are received from the Commissioner of the Probation Department. In the case of unavailable CORI records or CORI checks that return with a criminal history, the Area Office personnel discuss the circumstances with the individual, document the information and depending on the information received, request a waiver to place the child. The Department’s waiver process approval level is based on the types and disposition of criminal charges as listed in the Department’s Background Records Check Policy with the Area Director approving waivers for dismissed or continued without finding charges, the Regional Directors approving waivers for certain findings and the Commissioner, General Counsel or Deputy Commissioner approving waivers for higher level offenses. Any of these individuals can deny the waiver, terminating further placement review.

110 CMR 18.11 (9) states in part that

*“In reviewing a request for an individual to serve as a kinship foster/pre-adoptive parent the Commissioner, Deputy Commissioner of Field Operations and General Counsel must find (a) that the prospective foster/pre-adoptive parent or any household member does not present a risk of harm to the child based on the existence of a criminal conviction; and (b) that the conviction did not involve a crime against or involving a child.*”

Although a waiver process exists, the Department cannot be assured that the placement of the child is in the child’s best interest if the Department has not confirmed the CORI records and types of criminal charges sealed or on microfiche. The lack of a timely re-evaluations could result in children being placed in an unsafe environment, does not comply with Department policy and may result in ineligible claims for federal reimbursement. In addition, the placement of children in homes with sealed CORI or microfiche records not received could place the child in undue risk. (*Department of Health and Human Services - Title IV-E Foster Care Program 93.658; Fiscal Year 2002; 2003 Single Audit Finding 52*)

## **Department of Social Services Findings on Compliance with Rules and Regulations**

### **Finding Number 29: Timeliness of CORI Checks Needs Improvement (continued)**

#### **Recommendation**

The Department should ensure timely completion of the annual CORI re-evaluations by programming the FamilyNet system to provide an automatic notification to the CORI unit prior to the re-evaluation due date. Department management should reemphasize to personnel the importance of completing timely criminal background checks on foster care provider homes. Finally, management should review the process of placing children in homes with CORI records sealed or not received to ensure the safety of the children.

#### **Department Corrective Action Plan**

Because of the reductions in the Department's administrative staffing, driven by the fiscal crisis of the last three years, the Department has lost critical staffing in the foster care program, including all foster care recruitment staff. As a result, the number of foster families has shrunk every one of the last three years. Family resource staff, who are primarily responsible for CORI and re-licensing efforts, have been overwhelmed by the task of finding placements for an increasing number of children with rapidly diminishing foster homes. In this crisis, the work of CORI checks and re-licensing has suffered.

The Department is taking steps to monitor and improve CORI compliance. The background records check (BRC) unit director will continue to work with FamilyNet and Family Resource program staff in the development and implementation of an automated system of BRC requests for foster and adoptive resource applicants and providers. Full implementation of the automated system will be no later than April 30, 2005.

The BRC/CORI Unit Director will continue to produce and distribute monthly, through the Regional offices, area and region specific reports, generated from the DSS RPT 195 Foster Care Compliance Report of foster and adoptive resources having due and overdue BRC Requests or who have no record in FamilyNet of BRC checks having been done. The Central Office Unit for Foster Care Services will distribute monthly, through the Regional offices, provider specific reports, generated from the DSS RPT 196 Contracted Foster Care Compliance Report of contracted resources having due and overdue BRC Requests. The central office unit for foster care services will also coordinate and facilitate the routine review of both of these reports and the ongoing status of the timeliness of CORI checks with family resource staff. Monthly regional meetings will be scheduled to review the information, exchange best practices and discuss and develop next steps to remove any remaining barriers to achieving timeliness.

The BRC Unit and Director will continue to work with the Criminal History Systems Board and other appropriate agencies to obtain microfilm and sealed criminal records as expeditiously as possible and communicate those findings to the requesting offices when received.

Most important to improving our CORI checks, however, is the fact that the Governor and Legislature funded an aggressive foster family recruitment program this year. As foster family placements increase for the first time in three years, family resource staff will be able to give more attention to these important tasks, as the staff time required for immediate placement of children decreases.

Responsible person: Susan Getman  
Implementation date: June 30, 2005

## **Department of Social Services Findings on Compliance with Rules and Regulations**

### **Finding Number 30: The Process for Home Licensing Needs Improvement**

The FY2003 single audit report noted that the Department of Social Services (Department) placed children in homes prior to the Department completing proper licensing requirements. Our current review disclosed that late licensing continues. The Department, in three of the twenty-five Title IV-E cases tested, placed children in homes, but did not complete proper licensing requirements in a timely manner. Two of the cases had foster licensing studies completed 15 and 55 months after their due date. The third case was a kinship placement with an annual home study completed 6 months after the due date.

A review of the Unapproved Homes with Active Placements Report disclosed that as of June 20, 2004, 708 children were placed in foster homes prior to the home being licensed. Of those, 278 children were placed in homes within the 40 days allowed by the regulations, 415 children were placed in unlicensed homes for more than 40 days and less than one year, 14 children were placed in unlicensed homes for 1 to 2 years and 1 child was placed in an unlicensed home for 4 to 5 years.

There are approximately 7,300 children in foster care homes. Department officials explained that in situations involving kinship or child specific placements, the Department is allowed, under emergency provisions, to place the child in the home for 40 working days before a license is issued. They further explained that the above-mentioned report does not take into account these allowed exceptions. However, these exceptions were taken into consideration for purposes of our review and analysis of the data. Department officials stated that the exceptions are due to the fact that these deficiencies are not being identified at the regional and area offices.

The Department developed a Continuous Quality Improvement Process (CQI) administered in each office – area, regional and central offices. This process was designed to assist the new Commissioner and management in assessing the quality of services, identifying best practices and discussing and implementing new reform. The CQI Teams were established to monitor, evaluate, and provide feedback to Department management on the performance of its system of care. Data on the number of children in unapproved homes is one of many indicators being routinely reviewed. One tool to measure the status continues to be the monthly report of Children in Unapproved Homes. Senior management meeting agendas have included the Children in Unapproved Homes Report and the licensing of foster care homes.

To identify homes requiring immediate licensing approval and timely review, the Department implemented two monthly reports available to area office personnel on the DocDirect management reporting system maintained by the Department. One report entitled DSS 171 “Unapproved Homes with Active Placements” which captures all foster homes with active placements and no licensing approval by Region/Area Office. The report presents comprehensive data identifying the consumer name, birth date, consumer ID#, case ID#, case worker name, placement start date, family resource name and resource worker and services provided. The second report is the DSS RPT 195 “Family Resource Report” which captures licensing data by provider including dates of home study, annual re-assessments and foster license end date and the number of children placed in the home by Region/Area office. In addition, Department personnel stated that Area Office personnel utilize a FamilyNet system tickler file, which identifies and ages cases due or overdue for review by the assigned caseworker.

Area managerial staff is responsible to perform license reviews to ensure licensing approvals are completed in compliance with Department policy.

## **Department of Social Services Findings on Compliance with Rules and Regulations**

### **Finding Number 30: The Process for Home Licensing Needs Improvement (continued)**

Federal regulation, 42 USC 671(a)(10) and 672(c), requires that a provider, whether a foster family home or a child-care institution, must be fully licensed by the proper State Foster Care licensing authority. In Massachusetts, the licensing authority for foster family homes is the Department. Federal regulation, 45 CFR 1356.30(f), further requires that the licensing file for a child-care institution must contain documentation which verifies that safety considerations with respect to the staff of the institution have been addressed. The licensing process is not only to ensure that the facility is safe for child placement, but also that the staff that work at the facility have had background checks.

The lack of proper licensing could result in children being placed in an unsafe environment, does not comply with Department policy and results in ineligible claims for federal reimbursement. (*Department of Health and Human Services -Title IV-E Foster Care Program 93.658; Fiscal Year 2002; 2003 Single Audit Finding 53*)

#### **Recommendation**

The Department should identify foster care homes that require immediate licensing approvals and develop a process to ensure the homes identified as unlicensed obtain a timely review. Additionally, a process for central monitoring and oversight should be implemented to address deficiencies that are not being identified at the regional offices. As part of the CQI process, the Department should review procedures and recognize the safety hazards that exist by placing children in unlicensed homes. Lastly, the Department should maximize federally reimbursable expenditures by ensuring the timely performance of licensing reviews that would have been otherwise non-reimbursable.

#### **Department Corrective Action Plan**

As a result of the reductions in the Department's administrative staffing driven by the fiscal crisis of the last three years, the Department has lost critical staffing in the foster care program, including all foster care recruitment staff. As a result, the number of foster families has shrunk every one of the last three years. Family resource staff, who are primarily responsible for CORI and re-licensing efforts, have been overwhelmed by the task of finding placements for an increasing number of children with rapidly diminishing foster homes. In this crisis, the work of CORI checks and re-licensing has suffered.

The Department has already started to rebuild the staffing capacity needed to appropriately oversee and manage the foster care program. In the rebuilding process, the Central Office Foster Care Services Unit is now staffed with a full-time director in addition to a full-time foster care specialist, the latter having a focus on CQI for family resource practice. In addition, another two managers will be added to the Central Office Foster Care Services Unit staffing plan this calendar year, each assuming responsibility for routine monitoring of family resource compliance – CORI, licensing, etc. – for three regions. These managers will also provide technical assistance and support to field staff on improvements to family resource practice. There are already routine monthly meetings between central office, regional, and area family resource staff where the compliance reports are reviewed and discussed and where the family resource experts can share best practices. These routine meetings will continue.

## **Department of Social Services Findings on Compliance with Rules and Regulations**

### **Finding Number 30: The Process for Home Licensing Needs Improvement (continued)**

#### **Department Corrective Action Plan (continued)**

This group must also be attentive to identifying and prioritizing recommended improvements to the family resource functionality in FamilyNet. As the 'system of record', FamilyNet data and its reports will always be the source for testing compliance. The managers in the Central Office Foster Care Services Unit, along with IT FamilyNet staff, must continue to enhance the family resource functionality to ease navigation and minimize opportunities to create conflicting or erroneous data. Enhancements to FamilyNet will continue to be developed, with the goal of improving and increasing family resource documentation in the system. The Department is currently piloting in various offices across the Commonwealth a limited mobile technology project. Lessons from this pilot will inform any decision to provide mobile technology for family resource staff.

Most important to improving our CORI checks and re-licensing in foster care, however, is the fact that the Governor and Legislature funded an aggressive foster family recruitment program this year. As foster family placements increase for the first time in three years, family resource staff will be able to give more attention to these important tasks, as the staff time required for immediate placement of children decreases.

Responsible person: Mary Gambon  
Implementation date: June 30, 2005

## Department of Social Services Findings on Reportable Conditions

### Finding Number 31: Controls Over FamilyNet and Home Licensing Report Data Need Improvement

The FY2003 single audit report noted that the integrity of the data in the Department of Social Services (Department) FamilyNet system needed improvements and that there were overdue licensing re-assessments for a number of homes where children had been placed. Our current review of 5,747 foster care records in FamilyNet, a local area network implemented by the Department in February 1998, was performed to determine the Department's compliance with licensing, re-assessments, and criminal background checks. The review of the monthly Department's Family Resource Report, compiled from FamilyNet data, issued to area agency personnel to monitor foster care provider licensing and criminal background checks has a 52% error rate.

These errors include missing date information, inaccurate dates input to the FamilyNet system and overdue annual re-assessments, including criminal background checks.

An analysis of the 5,747 files in the FamilyNet system, as of July 19, 2004, noted the following:

- 853 files with the "home study" dates blank, which represents the original approval for child placement;
- 1,337 files with the "recent re-assessment" dates blank, representing the last re-assessment date;
- 92 files where the dates were incorrectly input;
- 712 files that indicated that the annual re-assessments were overdue -- 524 overdue less than a year, 134 overdue more than 1 year and less than 2 years, 24 overdue over 2 years and less than 3 years, 10 overdue 3 years and less than 4 years, 12 overdue more than 4 years and less than 5 years and 8 overdue more than 5 years and less than 6 years.

This results in a 52% error rate in the files. Additionally, 1,414 files dated after July 19, 2003 were not included in the analysis because these were within the one year that is allowed for the review. Department Area Office personnel input to FamilyNet case management data, including the resource provider name, the initial licensing date and most recent assessment date, number of authorized children, and the names of children placed in the resource provider home. From the FamilyNet data, the Department produces monthly reports entitled "Family Resource Report" and "Unapproved Homes with Active Placements" provided on the DSS DocDirect system to personnel responsible to monitor and conduct foster care providers licensing and criminal background review checks.

Department personnel stated that the monthly reports were a tool for determining licensing re-assessment due dates and Area Office personnel also rely on FamilyNet individual tickler files for due and overdue assessments and the hard copy case files to determine license assessment dates. However, when asked to produce the other methods utilized to determine re-assessment dates for testing purposes, Department officials stated that FamilyNet is the system of record. There is no central office internal audit review of information entered into FamilyNet.

Further, Department officials have stated that although the reports indicate that the re-assessments for continued licensing are overdue, the regulations allow for licenses to remain in effect until the re-assessment is performed. While we concur that the regulations do stipulate this, we do not believe that the intent of the legislation was for homes to remain licensed for an indeterminate amount of time before being assessed by the Department, as this poses a risk of children remaining in homes that may be unsafe.

## Department of Social Services Findings on Reportable Conditions

### Finding Number 31: Controls Over FamilyNet and Home Licensing Report Data Need Improvement (continued)

Family resource personnel recently identified other FamilyNet problems. These include the following: 1) Children in their six-month placement probation period whose required monthly visit information is entered in FamilyNet, do not appear in the bi-monthly visit data field as visited. 2) Home Licenses and Assessments that are completed and approved, with condition, do not appear in the FamilyNet reports as completed. Department officials further believe that the questions about the data in FamilyNet, as well as late CORI checks and licensing re-assessments, are more of a data entry issue than a child safety issue.

The Code of Massachusetts Regulations requires the following:  
110 CMR 7.113, states,

*The Department shall annually reassess foster care parents and homes whether unrestricted, kinship or child specific including interviews, case file reviews and criminal background checks and after completing the reassessment issue within ten working days a decision on the re-approval terms and conditions.*

110 CMR 18.08 (2)(b) CORI Investigations states,

*(b) The DSS shall conduct a CORI Investigation of any household member age fourteen or older during the initial homestudy/ evaluation of the foster/pre-adoptive home and during the annual reassessment of the foster/pre-adoptive home.*

Additionally, CFR, Title 45, Part 1356, Section 1356.30(a) states,

*(a) Unless an election provided for in paragraph (d) of this section is made, the State must provide documentation that criminal records checks have been conducted with respect to prospective foster and adoptive parents.*

Blank date information and data integrity problems in FamilyNet and monthly reports could result in children being placed in unsafe homes that lack timely initial licensing and annual re-assessments. It further results in noncompliance with state and federal laws, rules and regulations and Department policy. (*Department of Health and Human Services -Title IV-E Foster Care Program 93.658; Fiscal Year 2003 Single Audit Finding 54*)

### Recommendation

The Department should develop a central office oversight control process, including periodic reviews of monthly reports and case information entered into the FamilyNet system, to ensure that information related to foster care cases and licenses is properly recorded and current. With regard to the timeliness and accuracy of the data input into FamilyNet, the Department needs to consider ways to assist and facilitate the input of the data by the social workers. Examples include assigning others (e.g. clerical staff) to input the data and using items such as Dictaphones or Blackberrys in order to make the most effective use of the FamilyNet system capabilities. These activities would provide a centralized location for all significant data, easily accessible to workers, reviewers, and management.

In addition, the Department should develop a summary exception report to facilitate identifying overdue licensing and case re-assessment dates by region/area office for review. Department personnel should complete a reconciliation of information in FamilyNet and the manual case files. They should then perform any overdue re-assessments, including CORI checks, to ensure that children are being placed and maintained in safe home environments. Further, the Department should stress the importance of updating the FamilyNet system with timely and accurate information in order to maximize its benefits and utilize the system for its intended purpose. Lastly, the Department should review and revise applicable regulations to ensure that licensing re-assessments are required and performed in a stated timeframe in order for a home to remain licensed.

## Department of Social Services Findings on Reportable Conditions

### **Finding Number 31: Controls Over FamilyNet and Home Licensing Report Data Need Improvement (continued)**

#### **Department Corrective Action Plan**

A reasonable estimate is that approximately 95% of the Department's business is recorded in and processed through FamilyNet. Most of the information is successfully entered in FamilyNet in a timely and accurate manner. The data deficiencies discussed in this finding simply recapitulate Finding Number 30, documenting the weaknesses that have developed in our foster family licensing. It is apparent, however, that the Department must continue to enhance and improve the family resource functionality in particular as it relates to home licensing. In the past year, family resource and FamilyNet staff worked together to develop a significantly changed and improved management report for tracking all family resources. After using this revised report for approximately six months, it is evident that additional refinements to this report are needed. It appears that other tools may need to be developed to simplify the monitoring of timely home licensing activities. Appropriate Department staff will routinely meet to discuss and develop alternative management tools that will look specifically at home licensing. So too, this group will review current navigation through the family resource windows, recommending improvements and simplifications where appropriate. This group must also review the business rules related to home licensing, recommending and prioritizing changes to improve the integrity of the data.

Recommendations will be finalized by January 31<sup>st</sup> and a rollout plan of the recommended changes will be completed by March 31<sup>st</sup>.

Responsible person: Mary Gambon  
Implementation date: December 2005

## Department of Social Services Findings on Compliance with Rules and Regulations

### Finding Number 32: Non-Compliance with Legal Requirements for Open Fair Appeal Hearings

The Department of Social Services (Department) is not in compliance with the requirements for open hearings regarding appeals of certain decisions. A review of fair hearing requests received from 1995 to 2004 (as of August 17, 2004) disclosed 4,817 open hearing requests. Of these, 3,637 have not been scheduled for a fair hearing by the Legal Department within the 90 calendar days required by the Department regulations, 887 have been scheduled for a hearing, 19 have data errors, and 274 have not been scheduled but are within the 90 days scheduling requirement.

The fair hearing process allows clients including biological, foster, and adoptive parents and children receiving services, the opportunity to appeal certain matters and to present other matters to the Department through a grievance process. The Fair Hearing Process allows clients dissatisfied with certain actions or inactions of the Department or a provider under contract with the Department, to present his or her position in an informal hearing and to receive a just and fair decision by an impartial hearing officer based on the facts and applicable regulations. The Code of Massachusetts Regulation (CMR) 110 requires the Department to employ and train impartial fair hearing officers whose sole duty shall be to conduct fair hearings statewide. An individual shall file a written request for a fair hearing with the Department's hearing office within 30 calendar days from a decision.

As required by 110 CMR 10:05, a fair hearing shall address (1) whether the Department's or provider's decision was not in conformity with its policies and/or regulations and resulted in substantial prejudice to the aggrieved party; (2) whether the Department's or provider's procedural actions were not in conformity with its policies, regulations or procedures and resulted in substantial prejudice to the aggrieved party, or (3) if there is no applicable policy, regulation or procedure, whether the Department or provider acted without a reasonable basis or in an unreasonable manner which resulted in substantial prejudice to the aggrieved party.

The review of the FamilyNet open fair hearings report as of September 2, 2004 noted:

<u>Calendar Year</u>	<u>Total Requested Hearings</u>	<u>Open Hearing Requests</u>	<u>Hearings Not Scheduled</u>
2004 (As of 8/17/04)	1,370	1,086	753 <sup>(1)</sup>
2003	2,038	1,768	1,685
2002	1,957	1,191	1,008
2001	1,900	361	107
2000	1,949	223	49
<u>1995-1999</u>	<u>7,799</u>	<u>188</u>	<u>35</u>
<u>Total</u>	<u>17,013</u>	<u>4,817</u>	<u>3,637</u>

<sup>(1)</sup>274 requests received after June 2, 2004 were not included in the hearings not scheduled total since requests were received within the 90 days allowed to schedule the hearing.

In addition, we noted 19 requests for an open fair hearing had data errors, including eight with the scheduled hearing dates the same as the hearing request received date and 11 with the scheduled hearing dates prior to the hearing request date.

## **Department of Social Services Findings on Compliance with Rules and Regulations**

### **Finding Number 32: Non-Compliance with Legal Requirements for Open Fair Appeal Hearings (continued)**

Fair Hearings are conducted for allowable grounds of appeal including:

1. Applicants may appeal the Department's failure to follow 110 CMR, the computation or imposition of fees for services, or any action or inaction of the Department to place a child across state lines;
2. Biological parents may appeal when a goal determination at a Foster Care review changes;
3. A recipient of services from the Department may appeal a) the suspension, reduction or termination of services, b) the fee calculation if the recipient can show an incorrectly calculated fee, or c) the failure of the Department to follow 110 CMR which resulted in substantial prejudice to the recipient;
4. Foster parents have the right to appeal decisions of the Department as stated in 110CMR 10:06, including licensing decisions, foster care child removals, decisions to close foster home etc.;
5. Pre-adoptive and adoptive parents may appeal the denial of an applicant to become a pre-adoptive placement, withdrawal of Department sponsorship of a placement or removal of a child from placement;
6. Adolescents and children through an attorney or representative may appeal changes in goal determinations;
7. Any parent or caretaker of a child has a right to appeal a Department's support of a finding of abuse or neglect of a child.

Code of Massachusetts Regulations 110 section 10:10 states,

*The hearing shall be scheduled to be held within 90 calendar days from receipt of a request for a Fair Hearing.*

Department personnel stated that the reduction of hearing officers in recent years from five to three due to early retirement and budget cuts has resulted in a backlog of unscheduled hearings. As a result, the Department is not meeting the legal requirements of conducting an appeals process for individuals involved with the Department services. (*Department of Health and Human Services – Title IVE Foster Care Program 93.658*)

### **Recommendation**

The Department should implement procedures to comply with the legal mandates, including seeking additional resources to conduct the required hearings and complete the appeals and grievance process for requesting individuals in accordance with agency regulations.

### **Department Corrective Action Plan**

The inability of the Department to schedule fair hearings within the time required by its regulations is a direct result of a lack of sufficient staffing resources in the fair hearing unit, because of reductions in our administrative account during the last three years of fiscal crisis. The Department is actively working with the administration to request additional staff to more adequately service the number of fair hearing requests filed each year. If that staff is obtained, the Department will first focus on resolving the oldest cases still pending. Even without additional staff, the Department will refocus existing resources to resolve all requests received by the Department prior to the end of calendar year 2001. The Department will utilize a monthly doc direct report of all active cases to check for and correct data errors associated with request and scheduling dates.

Responsible person: Virginia Peel, General Counsel

Implementation date: December 2005

## Department of Social Services Findings on Compliance with Rules and Regulations

### Finding Number 33: Improvements Needed for the Documentation of Judicial Determinations

The Department of Social Services (Department) did not meet federal legal requirements for documentation of judicial determinations in three of 25 cases selected for Title IV-E review. At the time these cases were to be submitted for federal reimbursement, Department personnel could not locate the records in the case files resulting in the cases being ineligible for federal reimbursement. For two of them, the federal reimbursement was adjusted downward in the next quarterly claim period and the third will be adjusted later.

Federal regulation, 45 CFR 1356.21(d), require the documentation of judicial determinations as follows:

*The judicial determinations regarding, contrary to the welfare, reasonable efforts to prevent removal, and reasonable efforts to finalize the permanency plan in effect, including judicial determinations that reasonable efforts are not required, must be explicitly documented and must be made on a case-by-case basis and so stated in the court order.*

One case, submitted for federal reimbursement and not subsequently adjusted, did not meet Title IV-E legal requirements documenting a 60-day reasonable effort to prevent removal of a judicial determination on file at the Department. The second case submitted on the March 2004 claims roster and adjusted on the June 2004 claims roster lacked a judicial determination of reasonable efforts to finalize a permanency judicial plan within 12 months. The third case submitted on the December 2003 claims roster was adjusted on the March 2004 claims roster. The submission lacked an initial (the first court order allowing the removal of the child from the home) “contrary to the welfare” home removal determination and a 60 day reasonable efforts to prevent removal of a determination on file. The Department is required to obtain and maintain on file a judicial determination of their reasonable efforts to prevent removal of a child within 60 days of the child’s removal from the home.

The IV-E eligibility consultant hired by the Department processes IV-E claims quarterly through FamilyNet and completes IV-E case eligibility redeterminations usually every six months. This results in claims adjustments for prior claims, which were subsequently determined to be ineligible. Legal department personnel at regional offices are required to obtain and maintain court determination records.

45 CFR section 1356.21 states in part:

*(c) A child's removal from the home must have been the result of a judicial determination (unless the child was removed pursuant to a voluntary placement agreement) to the effect that continuation of residence in the home would be contrary to the welfare, or that placement would be in the best interest, of the child. The contrary to the welfare determination must be made in the first court ruling that sanctions (even temporarily) the removal of a child from home. If the determination regarding contrary to the welfare is not made in the first court ruling pertaining to removal from the home, the child is not eligible for title IV-E foster care maintenance payments for the duration of that stay in foster care.*

45 CFR section 1356.21(b)(1) states in part:

*(i) When a child is removed from his/ her home, the judicial determination as to whether reasonable efforts were made, or were not required to prevent the removal must be made no later than 60 days from the date the child is removed from the home.*

## **Department of Social Services Findings on Compliance with Rules and Regulations**

### **Finding Number 33: Improvements Needed for the Documentation of Judicial Determinations (continued)**

45 CFR section 1356.21(b)(2) states:

*(i) The State agency must obtain a judicial determination that it has made reasonable efforts to finalize the permanency plan that is in effect (whether the plan is reunification, adoption, legal guardianship, placement with a fit and willing relative, or placement in another planned permanent living arrangement) within twelve months of the date the child is considered to have entered foster care and at least once every twelve months thereafter while the child is in foster care.*

Department personnel could not locate the judicial determination documentation. As a result, it is not in compliance with Title IV-E legal requirements and is processing claims for ineligible expenses. (*Department of Health and Human Services – Title IVE Foster Care Program 93.658*)

#### **Recommendation**

The Department should maximize federally reimbursable expenditures by ensuring the timely performance of legal requirements that comply with federal regulations. In addition, the Department should ensure that all legal determinations are obtained and maintained in the case files.

#### **Department Corrective Action Plan**

The Department is in the process of documenting the process and recommended timelines for securing and filing the required legal documents associated with determining and redetermining Title IVE eligibility. The process and timelines will acknowledge the Title IVE regulations. In addition, the department will be developing management reporting tools to monitor the various eligibility requirements with an overall goal of maximizing Title IVE federal reimbursements, inclusive of all eligibility factors.

Responsible person: Ellen Finnegan  
Implementation date: June 2005

## **Executive Office of Health and Human Services/Office of Medicaid Background**

The Executive Office of Health and Human Services (Executive Office) is the designated single state agency responsible for administering the program of medical assistance. The Executive Office assumed the single state agency responsibilities in FY2004 pursuant to a legislative reorganization and designation of the Executive Office as the single state agency. Prior to that date, and beginning in fiscal year 1994, the Division of Medical Assistance (Division) was the designated single state agency. As the current single state agency, the Executive Office administers the medical assistance program primarily through its Office of Medicaid (Office).

During FY2004, the Office administered approximately \$8.9 billion in carrying out its program. Federal funds amounted to approximately \$4.4 billion.

The federal funding to the Office is detailed in the accompanying Schedule of Expenditures of Federal Awards. The Office's major programs were:

<u>CFDA#</u>	<u>Federal Program Description</u>
93.778	Medical Assistance Program
93.775	State Medicaid Fraud Control Units
93.777	State Survey and Certification of Health Care Providers and Suppliers
93.767	State Children's Insurance Plan

**Executive Office of Health and Human Services  
/Department of Mental Retardation  
Findings on Compliance with Rules and Regulations**

**Finding Number 34: Untimely Filing of Plan of Care and Level of Care Documents**

One out of 23 selections tested for waiver eligibility under the Medicaid waiver program administered for the Executive Office of Health and Human Services (Executive Office) by the Department of Mental Retardation (Department or DMR) did not have current Plan of Care (POC) and Level of Care (LOC) documents on file as of the end of the fiscal year (June 30). The last POC and LOC documents were filed on January 8, 2003 and should have been updated by January 8, 2004.

Federal regulation, 42 CFR 441.302, states that:

*Unless the Medicaid agency provides the following satisfactory assurances to HCFA, HCFA will not grant a waiver under this subpart and may terminate a waiver already granted.... An evaluation of the need for the level of care provided in a hospital, a NF, or an ICF/MR when there is a reasonable indication that a recipient might need the services in the near future (that is, a month or less) unless he or she receives home or community-based services.*

In response to this finding in the 2003 audit, the Department stated that it had completed its new LOC assessment process and begun implementation of the revised process for assuring that relevant documentation is complete and current, and for identifying those that are about to expire. There was some uncertainty as to what happened in this particular case. The risk that the Department incurs by not filing these documents on a timely basis is that benefits could be provided to persons who are potentially ineligible to receive benefits at the time of service. (*Department of Health and Human Services – Medical Assistance Program 93.778; Fiscal Year 2002; 2003 Single Audit Finding 33*)

**Recommendation**

The Department needs to continue to improve its eligibility procedures to ensure that all the necessary and required documentation is complete and current, including a control measure to identify, in advance, those cases whose documentation is about to expire. The Executive Office, as the single state agency for Medicaid, needs to monitor more closely the Department's operation of the waiver program.

**Department Corrective Action Plan**

An additional DMR software application was designed during 2000 and 2001 to track all waiver participants and their waiver eligibility criteria and documentation. In combination with the Electronic Individual Service Plan application and the POC application, this waiver-tracking database completes the triad that allows DMR to track all aspects of an individual's waiver status. Although there was an extended period of development for each of these applications, all are now fully functional. In addition, during the last year a DMR staff person was assigned the responsibility of Waiver Coordinator to oversee waiver eligibility and documentation.

Although the POC and LOC documents were timely prepared, DMR did not maintain a copy at the DMR Central Office. DMR has provided assurances to the Executive Office that they will strengthen their documentation and tracking procedures to ensure all copies of POC and LOC documents are kept on file at the Central Office location.

Responsible person: Annette O'Shea, Executive Office of Health and Human Services/Office of Medicaid

Implementation date: October 30, 2004

# **Executive Office of Health and Human Services / Department of Mental Retardation Findings on Compliance with Rules and Regulations**

## **Finding Number 35: No Communication of Feasible Alternatives**

One out of 23 selections tested for waiver eligibility under the Medicaid waiver program administered for the Executive Office of Health and Human Services (Executive Office) by the Department of Mental Retardation (Department or DMR) did not document that the recipient was notified of their feasible alternatives.

Federal regulation, 42 CFR.302 (d), states that recipient must be informed of any feasible alternatives available under the waiver and given the choice of either institutional or home and community-based services.

The risk that the Department incurs by not documenting that this step was taken or by not taking this step at all is that the Executive Office is not in full compliance with federal regulations and recipients may not receive the benefits to which they are entitled. (*Department of Health and Human Services – Medical Assistance Program 93.778*)

### **Recommendation**

The Department needs to continue to improve its client file management procedures to ensure that all the necessary and required documentation is complete and current, including a control measure to identify, in advance, those cases whose documentation is about to expire or is missing. The Executive Office, as the single state agency for Medicaid, needs to more closely monitor the Department's operation of the waiver program.

### **Department Corrective Action Plan**

The Executive Office continues to ensure that the Department improves its client file management procedures to implement a system whereby all deficient or missing information is appropriately tracked until the recipient's file is complete and accurate. A request of the Department for a formal review and a report will be requested for the period ending December 31, 2004.

In this case, the recipient was offered feasible alternatives, but the guardian failed or refused to sign the form that would document that the recipient was notified of feasible alternatives. DMR operates its waiver recognizing the importance of communicating with clients and their guardians choices in the settings of their care, community or institutional. The Executive Office will work with DMR to ensure that their file management system includes documentation of feasible alternatives.

Responsible person: Annette O'Shea, Executive Office of Health and Human Services/  
Office of Medicaid  
Implementation date: December 31, 2004

## Executive Office of Health and Human Services Findings on Compliance with Rules and Regulations

### Finding Number 36: Draw Downs of Federal Cash Need Better Monitoring

The Executive Office of Health and Human Services (Executive Office) did not adequately follow and monitor the methodology used to determine the amount of federal cash to draw down. As a result, for four months of FY2004, the Executive Office drew down more federal cash than it should have and, accordingly, will have to pay interest to the federal government. More federal cash than needed was drawn because the estimates made of the amount of non-federal collection revenue (i.e. rebates, refund, etc.) used to offset the draw down of federal cash were significantly less than the actual collection.

Since July 1996, the Executive Office entered into an agreement with the Office of the Comptroller (OSC), the department responsible for the Commonwealth's agreement with the US Treasury to implement and comply with the Cash Management Improvement Act of 1990, to create an interest neutral method of drawing down federal funds. Under this agreement with OSC, a methodology was developed that uses historical and current information to estimate how much money the Executive Office will receive in a given month through collections (i.e. refunds, drug rebates, etc.) and reduce the monthly draw down by the amount of the estimated collections. At the end of each month, a reconciliation of the actual collections and the estimate is made and the next day's draw down is adjusted appropriately.

For the first eight months of FY2004 (July – February), the cash draw downs were made according to the agreement and the Executive Office's methodology was adequately used. However, a turnover in personnel occurred and a new person assumed the responsibility for estimating the amount of collections by which to offset the draw downs. During the next four months, the amount of drug rebate money actually received was significantly higher than anticipated. The refund of a duplicate payment of approximately \$24 million was also received. Neither of these amounts was used to reduce the draw down; thereby making the draw interest generating instead of interest neutral. The difference between the average actual monthly collections and the estimate used by the Executive Office to offset the draw downs for the first eight months was only about \$46,000; for the entire 12 month period the difference was about \$251,000. As a result, the Executive Office will have to pay interest to the federal government. (*Department of Health and Human Services – Medical Assistance Program 93.778; State Children's Insurance Program 93.767*)

### Recommendation

The Executive Office needs to evaluate the methodology that is being used to estimate monthly collections and determine whether this methodology needs to be adjusted. It also needs to ensure that the methodology is adequately followed. The Executive Office should work with the OSC to determine the interest payable to the federal government.

## **Executive Office of Health and Human Services Findings on Compliance with Rules and Regulations**

### **Finding Number 36: Draw downs of Federal Cash Need Better Monitoring (continued)**

#### **Department Corrective Action Plan**

The Executive Office (EOHHS) followed the draw down methodology agreed upon with OSC and the US Treasury. EOHHS requests that the finding be limited only to “Estimates of Cash Collections Need Improvement”. The agreement between the OSC and the US Treasury states that no state or federal interest liability is incurred when the agreed upon funding technique is properly applied.

During FY2004, EOHHS followed procedures in the agreement with OSC, which is based on the Commonwealth’s CMIA agreement with the US Treasury, to create an interest neutral method of drawing down federal funds. In the last four months of FY2004, when actual collections exceeded projections, EOHHS continued to follow the same methodology that was agreed upon with the OSC.

EOHHS agrees that estimates of actual collections could be more accurate and is taking steps to revise the methodology used to estimate monthly collections. EOHHS drew down approximately \$4.4 billion of Title XIX and Title XXI funds in FY2004, or approximately \$366.6 million per month. We are improving our policies and procedures over estimates of cash collections and expect to be completed by December 31, 2004. The revision will include monitoring of collections during each month and a revision of projections by the accounting unit on the 15<sup>th</sup> of each month, if actual collections are substantially different from projections. The federal revenue unit will also do a preliminary reconciliation between funds drawn down based on estimates and actual collections on the first day of the following month and then do another reconciliation after all collections for the month are received, approximately two weeks after the end of the month. In addition, projections will incorporate more current information related to invoices rather than relying only on historical data.

In line with the methodology used by federal revenue unit, EOHHS would not have noted that the draw down during each month exceeded expenditures, until the reconciliation at the end of each month. EOHHS agrees that for the last four months of FY2004, monthly estimates of average refunds have been much different from actual refunds. This might result in a larger draw down offset, but this is not the result of the federal revenue unit incorrectly following the draw down and revenue neutral methodology.

The federal revenue unit uses a methodology agreed upon with the OSC for determining the average dollar amount of federal funds to be offset by refunds for each draw down. The federal revenue unit reduces each draw down by the estimated average refund dollar amount. An adjustment is made to reconcile the difference between the average refunds and actual refunds at the end of the month after all collections are received. The federal revenue unit receives an adjusted estimated average refund amount every month from the accounting unit. The agreement between the OSC and the US Treasury states that no state or federal interest liability is incurred when this funding technique is properly applied. According to the records maintained by the federal revenue unit, the federal revenue unit followed the procedure during each month in FY2004.

In regard to an overpayment of approximately \$24 million dollars, the internal systems identified this immediately and it was returned in March 2004. The duplicate payment was a result of a systems error, which had been promptly identified and corrected. The federal revenue unit immediately adjusted the draw down as soon as the overpayment was returned. A written explanation was given to the auditors.

Responsible person: Josiah Emuoyibo/Janice Axelrod  
Implementation date: December 31, 2004

## Executive Office of Health and Human Services Findings on Reportable Conditions

### **Finding Number 37: The Recording of Aged Accounts Receivable Needs to be Reviewed on a Timelier Basis**

As indicated last year, the Executive Office of Health and Human Services (Executive Office) needed to implement a process to monitor aged accounts receivable balances so that timely corrective action could be taken where appropriate. This year's testing noted similar issues. Three of ten accounts receivable selections tested are not likely to be collected and should be written-off. The ten selections represent receivables due to the Executive Office from the estates and accident liens of individuals who received The Executive Office/Family Assistance benefits. An aid category is assigned to each individual within the eligibility system (MA-21) or MMIS, passed through BEACON, the Department of Transitional Assistance eligibility system. Each month the receivable amounts due are posted to Massachusetts Management Accounting and Reporting System (MMARS) based on the information uploaded from MA-21, the Executive Office's delegated accounts receivable system, or from contracted recovery service vendors.

All of these cases are classified in the greater than 90 days aged receivables category and discussion with appropriate personnel at the Executive Office revealed that although the Executive Office is entitled to the receivable amounts tested, the likelihood of collecting the amount in three of the cases (two accident recovery and one estate recovery) is remote. Therefore, the receivable overstatement for these three cases is \$262,964.

As stated above, all of these selections are classified in the greater than 90 days aged receivables category. The age of these invalid receivable balances and the number of errors found in the sample (last year's audit disclosed three similar issues out of six MMARS selections tested) indicates that the Executive Office is not performing a timely review of these amounts. There is a significant risk of overstatement of the receivable balance. In the preceding four years, we reported that the Executive Office needed to improve its tracking and recording of receivables, uncollectibles, and write-offs and recommended that it work with its contractors to obtain aging reports of its receivables and the individual claims that were deemed uncollectible and those to be written-off. Executive Office personnel explained that they were working with the Comptroller's Office to develop policies and procedures that will result in more accurate tracking and recording of receivables, uncollectibles, and write-offs.

Additionally, this year's testing of receivable transactions, as also indicated last year, noted that there was not proper segregation of duties in the processing of receivables transactions (increases, decreases, cash receipts). One person prepared, posted, and approved all of the receivable transactions tested. (*Department of Health and Human Services – Medical Assistance Program 93.778; Fiscal Year 2000; 2003 Single Audit Finding 31*)

### **Recommendation**

The Executive Office needs to implement a process of monitoring aged accounts receivable balances so that timely corrective action can be taken, where appropriate. In addition, the Executive Office should apply the appropriate level of segregation of duties to avoid the same employee preparing, posting, and approving receivable transactions.

## Executive Office of Health and Human Services Findings on Reportable Conditions

### Finding Number 37: The Recording of Aged Accounts Receivable Needs to be Reviewed on a Timelier Basis (continued)

#### Department Corrective Action Plan

The Executive Office is implementing a corrective action plan to review its accounts receivable on a timely basis.

1. The accounting unit will work with the program unit and contractors, with guidance from the Office of Medicaid Internal Control and Audits Unit, to develop accounts receivable policies and procedures.
2. The program unit and the contractors will be required to submit the billing and accounts receivable reports on a monthly basis.
3. Accounts receivables will be reviewed for accuracy on a monthly basis and adjustments will be made if necessary.
4. The accounting unit will work with the program unit and the contractors to make sure that cases are reviewed to ascertain that the accounts receivables stated are in fact the correct accounts receivables.
5. The Accounting Unit will send a mid-year accounts receivable report of all its open summary receivables to the Office of the Comptroller for review.
6. Premium billing receivables will be reviewed on a quarterly basis.
7. Requests for write-off of premium billing receivables that are over one year old will be done on a quarterly basis.

Below is a tentative FY05 schedule for submitting requests for write-off of aged open premium receivables greater than one year old:

<u>Period</u>	<u>Date of submission</u>
Through QE 09/30/2003	December 1, 2004
Through QE 12/31/2004	March 1, 2005
Through QE 03/31/2004	June 1, 2005
Through QE 06/30/2004	September 1, 2005

Responsible person: Alice Kyeba, The Executive Office Accounting Unit  
Implementation date: December 1, 2004

## Executive Office of Health and Human Services Findings on Reportable Conditions

### **Finding Number 38: Procedures Used in the Preparation of the Information for GAAP Reporting Purposes Need to be Documented**

The Executive Office of Health and Human Services (Executive Office) needs to document the procedures it uses to prepare the generally accepted accounting principles (GAAP) Package required to be submitted annually to the Office of the Comptroller (OSC), as well as the actuarially developed year-end Medicaid accrual.

Each year the OSC requires each of the Commonwealth departments to submit a GAAP Package because throughout the year the Commonwealth accounts for its financial operations on the statutory basis of accounting as defined by Massachusetts law (budgetary basis). For its Comprehensive Annual Financial Report (CAFR), the Commonwealth reports based on GAAP as defined for governments by the Governmental Accounting Standards Board, often referred to as the accrual basis. The CAFR includes information about the extent of certain future expenditure commitments that have been made in the current and prior years and any revenue earned but not yet collected to meet them.

The GAAP Package for FY2004 was to be submitted to OSC by August 6, 2004. The Executive Office received a two week extension from OSC from the August 6<sup>th</sup> date. Several versions of the Package were submitted to the auditors and OSC. Each of the versions differed significantly from the previous versions; there was great difficulty reconciling the information in the package to the MMARS reports or other supporting information. Furthermore, in some instances, the individuals who signed-off on the Package's schedules as preparers stated that they had not prepared the reports submitted to the auditors. It was nearly two months after the due date that the Package was considered reasonable and adequate.

The GAAP Medicaid accrual is a calculation by the Executive Office using pay lag and service models of the Medicaid services rendered prior to June 30 (the Commonwealth's year-end) that were not paid for by June 30. Once the Executive Office performs the calculation, it is reviewed and analyzed by the independent audit firm's actuary. The actuary's review disclosed errors that have caused a delay in the calculation of the accrual. The amount of Medicaid payments not made by June 30 for services rendered prior to that date is the largest accrual in the Commonwealth's GAAP financial statements.

Discussions with Executive Office personnel and performance of our audit procedures revealed that the procedures used to prepare the GAAP Package and the accrual are not documented. During FY2004 there was a turnover in the personnel as well as a reorganization of personnel and functions. The lack of written procedures compounded by the turnover and reorganization led to the significant delays and varied information. (*Department of Health and Human Services – Medical Assistance Program 93.778; State Children's Insurance Program 93.767*)

### **Recommendation**

It is recommended that the Executive Office's Accounting and Budget Department document the procedures it uses for the preparation of all GAAP information. The documentation should address all the steps that need to be taken, and factors to be considered, for the proper completion of the GAAP Package, as well as for the calculation of the GAAP accrual. It should also identify the employees responsible for preparing, reviewing, and signing-off on the information.

## **Executive Office of Health and Human Services Findings on Reportable Conditions**

### **Finding Number 38: Procedures Used in the Preparation of the Information for GAAP Reporting Purposes Need to be Documented (continued)**

#### **Department Corrective Action Plan**

The information prepared for GAAP reporting purposes (the GAAP package) consists of two large pieces. One piece is the receivables estimate and the other an estimate of the accrual, or the claims that have been incurred but not received (IBNR).

To date, the Executive Office has relied on the instructions from the Office of the Comptroller in completing the receivables portion of the GAAP Package. In an effort to meet the deadline in the midst of reorganization and the implementation of a new statewide accounting system, the Executive Office submitted the receivables portion without sufficient quality control. As problems were discovered, Executive Office staff submitted revised drafts, which led to multiple submissions of the accounts receivable package. Late in the process, Executive Office staff did submit a package that all parties believe is correct. Having said the above, the Executive Office is developing a supplement to the instructions from the Office of the Comptroller for completion of the receivables portion of the GAAP Package. These supplementary instructions will serve as the receivables portion of the Department's corrective action plan. The Executive Office will submit the corrective action plan to the auditors.

The Executive Office has a detailed manual for developing the budget forecast, which includes an estimate of the IBNR. For the purposes of state budget development, the model develops a point estimate of the IBNR rather than a range, and does not incorporate any margin. The accrual is audited by comparing the Executive Office's point estimate to the range developed, using the Executive Office's raw data, by the auditor's actuary. For the auditor's actuary, the final step in the calculation of the range for the accrual is to add a margin to both the low and high end of the estimated range.

The source data for the model that was used in the first calculation of the IBNR, conducted according to the procedures, was flawed. As a result, the first accrual estimate was incorrect. Upon discovery of the error, the Executive Office pulled the data using the correct specifications and reran that portion of the model that estimates the IBNR. This second estimate was within the high and low range estimated by the auditor's actuary, before the addition of a margin. When the margin was added to the low and high ends of the actuary's range, the low end of the range exceeded the second Executive Office estimate. In light of the fact that the Executive Office model does not incorporate a margin, management made the decision to manually adjust their estimate of the accrual to be equal to the low end of the actuary's range. Having said this, the Executive Office agrees that the documentation of the calculation of the accrual should and will be updated and improved as part of the corrective action plan. The Executive Office will submit the corrective action plan to the auditors.

Responsible person: Darrin Shaffer  
Implementation date: December 2004

## **Executive Office of Health and Human Services Findings not Repeated from Prior Years**

1. The Executive Office of Health and Human Services (Executive Office) needed to obtain an independent auditor's report on the internal controls in place at its service organization (Statement on Auditing Standards #70). The Executive Office did obtain a SAS 70 report for FY2004 from an independent auditor and is in the process of reviewing the Report submitted. The Report draft issued contained an unqualified opinion. (*Fiscal Year 2003 Single Audit Finding 32*)

## **Department of Elder Affairs Background**

The Department of Elder Affairs (Department) was established by Section 2 of Chapter 6A of the Massachusetts General Laws. Its responsibilities include the administration and oversight of various programs and services that benefit older citizens in the Commonwealth in accordance with the requirements of the Older Americans Act of 1965, as amended.

The mission of the Department is to promote dignity, independence, and rights of Massachusetts elders and to support their families through advocacy and the development and management of programs and services.

The Department's responsibilities include the administration and monitoring of protective, supportive and nutritional programs and services for 1.1 million elders, including case management and in-home services through the Home Care Program, nutrition, ombudsman services for residents of long-term care facilities and assisted living residences, and for recipients of services in the community, protective services and a variety of supportive and informational services including transportation, legal services, health benefits counseling, information and referral and senior center programs. The nutrition program provides education and over eight million meals to elders through home delivered (Meals on Wheels) or congregate meal sites. In addition, the Department is responsible for certifying over 160 Assisted Living Residences and administering Prescription Advantage, the nation's first state sponsored prescription drug insurance plan for seniors age 65 and older and low-income disabled adults. Elder Affairs' programs and services operate through a statewide network providing services to elders through both regional and local agencies which includes 27 regional Aging Services Access Points, 23 Area Agencies on Aging that operates programs authorized under the Older Americans Act, 348 municipal Councils on Aging, and 290 senior and drop-in centers.

In FY2004, the Department administered \$328 million with federal funds totaling approximately \$32.4 million.

The Department's major program is the Cluster of:

<u>CFDA #</u>	<u>Federal Program Description</u>
93.044	Special Programs For The Aging-Title III, Part B-Grants for Supportive Services and Senior Centers
93.045	Special Programs For The Aging-Title III, Part C- Nutrition Services
93.053	Nutrition Services Incentive Program

## **Department of Elder Affairs**

### **Findings on Compliance with Rules and Regulations**

#### **Finding Number 39: Federal Reports were not Reconciled with the Commonwealth's Accounting System**

As noted in the prior years, the Department of Elder Affairs (Department) did not reconcile the Financial Status Report (SF 269) to the Massachusetts Management Accounting and Reporting System (MMARS), the Commonwealth's accounting system, for the Title III Program. A review of FY2004 SF 269 indicated that, while there were secondary reviews of reports, the Department did not implement a system to ensure that the amount compiled and reported by the Department on the SF 269 is reconciled to MMARS. The SF 269 is prepared based on the monthly reports submitted by the various Area Agencies on Aging (AAA), which are then compiled and added with state level administrative expenses. The purpose of the SF 269 is to report the status of federal funds, including program expenditures and program revenue. Consequently, the federal government does not have adequate assurance that amounts reported are contained within MMARS and that they are fairly stated.

The OMB Circular A-133 Compliance Supplement Section 3L requires that the Department include all activity within the reporting period to be supported by their underlying accounting records and be fairly presented in accordance with the program requirements.

The Department currently cannot prepare the SF 269 from MMARS due to the commingling of the various components of the Title III Program (Part B, C, D, E and Ombudsman) within three appropriations. This procedure has required the Department to compile information outside of MMARS in order to report separately the Title III Programs components' revenue and expenditures. Department officials have stated that new appropriation accounts have been requested for the FY2005 budget and new codes are being added to the NewMMARS chart of accounts that will facilitate preparation of the SF 269 for Title III and Title VII, but these procedures had not been implemented as of June 30, 2004. (*Department of Health and Human Services - Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers 93.044 and Special Programs for the Aging - Title III, Part C - Nutrition Services 93.045; Nutrition Services Incentive Program 93.053; Fiscal Year 2001; 2003 Single Audit Finding 55*)

#### **Recommendation**

The Department should ensure that the new appropriation accounts and NewMMARS codes provide the separation necessary so each federal program can be identified. This procedure will ensure that the Department can prepare the SF 269 Report from MMARS and avoid the extensive reconciliation required under the current system.

#### **Department Corrective Action Plan**

With the introduction of NewMMARS on July 1, 2004, all transactions now require coding that distinguishes the specific federal grant and grant year to be charged, and the purpose of the activity for which the expenditure is made. Elder Affairs has implemented these codes and is now able to separate allocations and expenditures by activity (e.g., Area Plan Administration, Medication Management) and grant award (Title III Part B, C, D, and E, and Title VII Elder Abuse Prevention and Ombudsman). A request for separate accounts was made as part of the FY2005 budget process. However, the final GAA did not provide these accounts. Elder Affairs has requested and the Comptroller's Office has agreed to establish the accounts. At the present time, however, Elder Affairs believes it has met the standard.

Responsible person: Randy Garten  
Implementation date: Completed

## **Department of Elder Affairs Findings on Compliance with Rules and Regulations**

### **Finding Number 40: Fiscal Year 2004 Cost Allocation Plan not Finalized**

The Department of Elder Affairs (Department) did not complete the FY2004 indirect cost allocation plan because the Department is evaluating a change in its cost allocation methodology. Rather, it applied the provisional rate of 21% to its federal grants during FY2004.

The provisional rate of 21% charged to the federal grants in FY2004 was in accordance with a negotiated agreement with the Department of Labor dated October 1, 1996. The agreement stipulates that:

*"Commencing with State Fiscal Year 1993, indirect cost rates may be used as a budgetary tool in establishing grant or contract amounts. Nevertheless, only actual indirect costs can be charged to Federal grants and contracts in accordance with cost accounting procedures approved by the Office of Cost Determination...."*

The agreement stipulates that the Department may apply a budgetary rate of 40% for all programs beginning July 1, 1996 "until amended" (an actual plan is developed). The Department and the Commonwealth, however, have continued to take a more conservative approach by applying the 21% rate during FY2004, resulting in a total of \$366,776 of indirect costs charged to the federal programs for fiscal year. The Agreement also states that only actual indirect costs can be charged to federal grants and contracts. The Department is required to compute the actual rate for each fiscal year in accordance with the cost accounting procedures approved in the Department's Departmental Cost Allocation Plan. The actual rate should be compared with the provisional rate used to bill federal programs and any recoveries must be credited against the applicable federal program or additional costs may be charged. Based on the cost allocation plans developed and used for the years 1999 – 2003, the Department undercharged the Title III federal grants by using the 21%. (*Department of Labor - Senior Community Service Employment Program 17.235; Department of Education - Eisenhower Professional Development State Grants 84.281 and Reading Excellence Act 84.338; Department of Health and Human Services - Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers 93.044; Special Programs for the Aging – Title IV – and Title II Discretionary Projects 93.048; Nutrition Services Incentive Program 93.053; Centers for Medicare and Medicaid Services (CMS) Research, Demonstration and Evaluations 93.779; Maternal and Child Health Services Block Grants to States 93.994*)

### **Recommendation**

The Department should also ensure completion and submission of its FY2004 plan and record indirect costs based on actual allocation.

### **Department Corrective Action Plan**

Elder Affairs formally requested assistance from the Executive Office of Health & Human Services (HHS) consolidated Revenue Division. HHS has contracted with PCG, Inc. to develop a more accurate methodology for establishing indirect costs. This methodology, however, will be applied to FY2005. PCG, Inc. will meet with Elder Affairs and assist in completing the FY2004 Cost Allocation Plan.

Responsible person:     Martin Baker  
Implementation date:     January 15, 2005

## Department of Elder Affairs Findings on Compliance with Rules and Regulations

### Finding Number 41: Monitoring of Area Agencies Needs to Continue to Improve

As noted in the prior year, the Department of Elder Affairs (Department) needs to continue to implement its monitoring procedures of the Area Agencies on Aging (AAA) to ensure that funds are being spent in accordance with contract requirements and federal and state regulations and to assess program quality and effectiveness. During fiscal years 2003 and 2004, the Department implemented a number of improvements in its monitoring of the AAAs by the Title III Programs Administration Unit (Unit). The Unit performs desk reviews of area plans, subrecipient monitoring, and development and review of standard invoicing requirements. However, the Department has not implemented fully its corrective action, including a comprehensive statewide monitoring tool based on federal and state regulations and policies to review AAAs' program quality and effectiveness. Although the Area Agency Standards and Indicators document that will serve as the tool for on-site monitoring has been completed, on-site visits did not begin during FY2004.

The Department passes Title III federal funds through to AAAs for programs including elderly nutrition and supportive services. OMB Circular A-133 §400(d) lists one of the responsibilities of pass-through entities as:

*"Monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations and provisions of contract or grant agreements and that performance goals are achieved."*

OMB Circular A-133, Compliance Supplement, Part 3 Section M, Subrecipient Monitoring further states that:

*"During-the-Award Monitoring - Monitoring the subrecipient's use of Federal awards through site visits or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved."*

*"Monitoring activities normally occur through-out the year and may take various forms, such as: Reporting – reviewing financial and performance reports submitted by the subrecipient. Site Visits – performing site visits at the subrecipient to review financial and programmatic records and observe operations. Contact – regular contacts with subrecipients and appropriate inquiries concerning program activities."*

In addition to federal regulations, the Commonwealth of Massachusetts' Procurement Policies and Procedures Handbook Chapter 5 Contract Execution and Management: Monitoring and Evaluating Contractor Performance and Compliance states in part:

*"The Commonwealth has a responsibility to conduct monitoring and evaluation of the commodities and services it purchases. These activities can assist in identifying and reducing fiscal and programmatic risk as early as possible thus protecting both public funds and clients being served. Contract managers are responsible for monitoring contractor performance and other issues that arise during the life of the contract. In developing monitoring and evaluation procedures, the Commonwealth, through its departments should strive for methods which rely on, among other things, national or industry standards and which are coordinated, cost efficient and appropriate to the level of risk to the Commonwealth in the purchase of the commodities or services."*

## **Department of Elder Affairs Findings on Compliance with Rules and Regulations**

### **Finding Number 41: Monitoring of Area Agencies Needs to Continue to Improve (continued)**

Department officials stated that monitoring activities are conducted through monthly and annual financial reports, monthly nutrition program statistical reports, annual programmatic statistical reports, site visits, phone contacts, and monthly meetings with AAA Directors. By not fully implementing the monitoring of subrecipients, the Department cannot ensure that federal awards are used for authorized purposes in compliance with contracts, laws and regulations, or that fiscal and programmatic records are being maintained. (*Department of Health and Human Services - Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers 93.044 and Special Programs for the Aging – Title III, Part C - Nutrition Services 93.045; Nutrition Services Incentive Program 93.053; Fiscal Year 2001; 2003 Single Audit Finding 59*)

#### **Recommendation**

The Department should establish and implement its statewide monitoring tool, including site visits, for FY2005 to evaluate and assess the AAAs' performance and record keeping for program quality and effectiveness.

#### **Department Corrective Action Plan**

The Department of Elder Affairs has fully implemented a comprehensive statewide monitoring tool based on Federal and State regulations and policies to review Area Agencies on Aging program quality and effectiveness. The Department started on-site reviews of AAAs in July 2004 with the release of the Elder Affairs' document, *Standards and Indicators – Title III Programs*, that describes benchmarks for quality operation of Title III Programs and menus of activities in support of achieving them. The target points and activities provide the basis for Elder Affairs' on-site monitoring of Title III Programs as carried out by AAAs.

Elder Affairs has implemented procedures to visit each of the twenty-three AAAs once per year, at a minimum, in order to conduct an on-site visit. A report entitled, *Title III Program – Monitoring Report*, is presented to the AAA within sixty days of the site visit. The Report includes a section for 'Observations and Suggested Actions', as well as a section for 'Required Corrective Actions'. The 'Required Corrective Actions' portion of the report requires a response from the AAA within a defined period. Continuing communication, guidance, and where necessary additional site visits, are the courses of action in managing AAA responses to suggested and required corrective actions in Elder Affairs' work to identify and reduce fiscal and programmatic risk.

The monitoring review of the policies, procedures and operations of the AAAs and the subsequent report provides Elder Affairs and the agencies the opportunity to collaborate and cooperate toward achieving the best quality of services for elders. Combined with ongoing monitoring activities including monthly and annual financial reports, monthly nutrition program statistical reports, annual programmatic statistical reports, site visits, phone contacts, and monthly meetings with AAA directors, the *Standards and Indicators – Title III Programs and the Title III Program – Monitoring Report* provides Elder Affairs with the necessary tools to ensure that Federal awards are administered in compliance with laws and regulations.

Responsible person: Theodore Zimmerman  
Implementation date: Completed

## Department of Elder Affairs Findings on Compliance with Rules and Regulations

### **Finding Number 42: Monitoring of Audit Findings Relating to Area Agencies on Aging Needs Improvement**

As indicated in the prior year, the Department of Elder Affairs (Department) did not issue management decisions on the Title III audit findings disclosed for two of its Area Agencies on Aging (AAA) in a timely manner. During the FY2004 audit, two of the 17 AAA audit reports selected for testing contained audit findings and another two audit reports could not be located. The Department could not provide documentation of management follow-up of these four audit reports.

OMB Circular A-133, Compliance Supplement Part 3 states that:

*“A pass through entity should ensure that subrecipient audits are completed within nine months of the end of the subrecipient’s audit period, and should issue a management decision on audit findings within six months after receipt of the subrecipient’s audit report. It should also ensure that subrecipient take timely and appropriate corrective action on all audit findings.”*

Department officials indicated that they have policies and procedures relating to obtaining audits and audit findings of the AAA. The procedures include issuing a management decision on all audit findings within the required timeline. However, the personnel responsible for following up on subrecipient audit findings did not appear to be aware of these findings and no documentation was provided on management decisions relating to the two AAA audit reports with findings and the two missing audit reports in our testing. (*Department of Health and Human Services - Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers 93.044 and Special Programs for the Aging – Title III, Part C - Nutrition Services 93.045; Nutrition Services Incentive Program 93.053; Fiscal Year 2003 Single Audit Finding 60*)

### **Recommendation**

The Department should ensure that policies and procedures relating to AAA audit findings are being implemented through the proper review and supervision of all personnel responsible for resolving audit findings, the timely review of management decision and the AAA’s corrective action.

### **Department Corrective Action Plan**

Elder Affairs is one of several agencies that will be included in a centralized provider/subrecipient audit review and tracking process that the Executive Office of Health and Human Services (EOHHS) is scheduled to implement in January, 2005. EOHHS staff with specific training in provider/subrecipient auditing will form an Audit Unit which will be responsible for reviewing all provider/subrecipient and audit reports and work with the appropriate purchasing agencies to follow up resolve all audit findings. When this process is implemented, Elder Affairs will notify EOHHS of all previously unresolved provider/subrecipient audit findings so that they will be included in the review, tracking, and resolution process.

Responsible person: Martin Baker  
Implementation date: June 30, 2005

## **Department of Elder Affairs Findings on Compliance with Rules and Regulations**

### **Finding Number 43: Lack of Documentation to Support Payroll Charges to Federal Awards**

The Department of Elder Affairs (Department) could not find the personnel file for one of three payroll selections tested and as a result could not provide appropriate documentation to support these payroll charges to the federal awards.

*OMB Circular A-87, Attachment A, Part C, Section 1, Factors affecting allowability of costs states that:*

*“To be allowable under Federal awards, costs must meet the following general criteria...be adequately documented”*

Department officials stated that the Department properly maintains personnel files with information that support payroll charges to federal awards. However, during the present year a number of personnel files, including the file in question of an individual who retired during the year, were lost when being transported during the Department’s move. The payroll charge to the federal grant for this individual was \$197.87 for the weekly pay period ending September 6, 2003. The charge for this individual for the entire year would have been about \$10,000 and depending on how many other files are missing the unsupported charges to federal grants could be significant. (*Department of Health and Human Services - Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers 93.044*)

### **Recommendation**

The Department should exhaust efforts to find or reconstruct the information missing that supports the payroll charges to the federal awards.

### **Department Corrective Action Plan**

A single file, associated with a retired employee, was lost during renovations. Every effort has been made to locate and rebuild the appropriate documentation. Despite an exhaustive attempt to find the record, the official file has not been located.

Elder Affairs believes, however, that sufficient external controls exist to ensure that payroll charges occur correctly. All current (active) employee files are maintained by Executive Office of Human Services (EOHHS), Human Resources Division, located at 600 Washington St., Boston, MA. Electronic payroll records are also maintained by EOHHS. All employees’ activities are recording utilizing activity codes that are reflective of the percentage of time they spend performing duties for various duties. Individual employee activities may be divided utilizing Labor Cost Management rules, which allow Elder Affairs to divide an individual’s time accurately. These rules exist within HRCMS (the Commonwealth’s personnel & payroll processing system) and are applied to each payroll run.

Responsible person: Mary Cummings  
Implementation date: N/A

## **Department of Elder Affairs Findings not Repeated from Prior Years**

1. The Department of Elder Affairs (Department/ used provider information and not Area Agency on Aging Information to prepare the SF 269 Report. The Department has now adjusted the process to prepare the SF 269 from the underlying accounting records of Elder Affairs. *(Fiscal Year 2003 Single Audit Finding 56)*
2. The Department needed to develop a final indirect cost plan for fiscal years 1999, 2001, 2002, and 2003. The plans for those years have been completed, a reconciliation of the indirect costs charged to the amounts identified in the plans was completed and the appropriate adjustments made to federal grant accounts. *(Fiscal Year 2003 Single Audit Finding 57)*
3. The Department needed to fully document the Title III Programs carry forward of unliquidated balances relating to awards to AAAs. The Department implemented a documented process that ensures that all unliquidated obligations are obligated within the timeframe permitted by federal regulations. *(Fiscal Year 2003 Single Audit Finding 58)*

## **Executive Office of Public Safety Background**

The Executive Office of Public Safety (EOPS) oversees 17 agencies, boards, and commissions. The EOPS Program Division is the state-planning agency responsible for applying for and administering federal and state criminal justice grants.

The Department of Homeland Security, Office of Domestic Preparedness makes State Homeland Security Grants Funds available to states, which then make sub-awards to state and local units of governments. Through these programs, the Department of Homeland Security provides planning, equipment, training, exercise, and management funding to emergency prevention, preparedness, and response personnel in all 50 states. EOPS works in partnership with federal, regional, local and private sector entities to enhance statewide capabilities to detect, prevent, respond to and manage the consequences of acts of terrorism and other critical incidents.

A key federal grant program administered by EOPS is the Edward Byrne Memorial State and Local Law Enforcement Assistance Program (the Byrne Program). The Byrne Program, created by the Anti-Drug Abuse Act of 1988 (Public Law 100-690), places emphasis on drug-related crime, violent crime, and serious offenders, as well as multi-jurisdictional and multi-state efforts to support national drug control priorities. The Bureau of Justice Assistance makes Byrne Program Formula Funds available to states, which then make sub-awards to state and local units of governments.

The Byrne Formula Grant Program is a partnership among federal, state, and local governments to create safer communities and improved criminal justice systems, with emphasis on violent crime and serious offenders, and to enforce state and local laws that establish offenses similar to those in the federal Controlled Substances Act. Grants may be used to provide personnel, equipment, training, technical assistance, and information systems for more widespread apprehension, prosecution, adjudication, detention, and rehabilitation of offenders who violate such state and local laws.

The Office of Juvenile Justice and Delinquency Prevention administers the Juvenile Accountability Incentive Block Grant (JAIBG) program. Through the JAIBG program, funds are provided as block grants to states that have implemented, or are considering implementation of, legislation or programs promoting greater accountability in the juvenile justice system.

In FY2004, EOPS administered approximately \$300.5 million, of which \$32.7 million was in federal funds. The federal funding to EOPS is detailed in the accompanying Schedule of Expenditures of Federal Awards. EOPS's major programs were:

<u><b>CFDA#</b></u>	<u><b>Federal Program Description</b></u>
16.007/97.004	State Domestic Preparedness Equipment Support
16.579	Byrne Formula Grant Program
16.523	Juvenile Accountability Incentive Block Grant

## **Executive Office of Public Safety Findings on Compliance with Rules and Regulations**

### **Finding Number 44: Contract and Payment Vouchers not in Compliance with Commonwealth Policies**

The Executive Office of Public Safety (EOPS) is not in compliance with the standard contract requirements for payments made within the service contract dates. The FY2003 single audit report noted that payments were made to a municipal police department for the establishment of a Drug Task Force outside the service contract dates. The Task Force work began eight months before there was a fully executed contract. As a result, the dates of service on the payment vouchers prepared by EOPS personnel were falsified to generate a payment to the police department because the work was started prior to the execution of the contract. The Massachusetts Management Accounting and Reporting System (MMARS) will not accept a payment transaction with service dates prior to the effective date of the contract.

In response to the prior audit, EOPS stated, “if a standard contract form is not executed prior to the dates of service for the contract due to late submittal on the part of the seller department, the effective dates of the contract will be the last signature date on the document. No requests for payment will be reimbursed that fall outside of the service dates of the contract.” EOPS also stated “The Programs Division is not paying for services outside of the contract period as reported on quarterly reports. Actual contract periods are being entered onto the state accounting system to correspond with the last signature date or anticipated contract start date, whichever one is later.”

However, our follow up disclosed that in 1 of 75 transactions tested, a reimbursement payment totaling \$23,500 was made outside the service contract date. EOPS entered into a contract with a municipality to establish a Drug Task Force that was to provide services from November 1, 2002 to September 30, 2003. The authorized representative from the Task Force signed the contract on October 22, 2002, however the Assistant Secretary of EOPS signed and executed the contract on June 30, 2003. The subrecipient’s expenditure report indicated that the services were provided from April 1, 2003 to June 30, 2003, outside of the original contract dates. The Commonwealth’s standard contract form requires the contract to be signed prior to the start date of the contract and prior to services being rendered as follows:

*Notwithstanding verbal or other representations by the parties, or an earlier start date indicated in a Contract, the effective start date of performance under a contract shall be the date a Contract has been executed by an authorized signatory of the Contractor, the Department, a later date specified in the contract or the date of any approvals required by law or regulation, whichever is later.*

*(Department of Justice – Byrne Formula Grant Program 16.579; Fiscal Year 2002; 2003 Single Audit Finding 19)*

### **Recommendation**

EOPS should reemphasize the importance of ensuring that the standard state contract is signed prior to the start date of the contract and prior to the services being rendered. Accurate information reflecting the actual dates of service should be input to the Commonwealth’s MMARS accounting system. In addition, with the implementation of the NewMMARS consideration should be given to the risk associated with inaccuracies and incomplete information being input.

### **Department Corrective Action Plan**

The EOPS will continue with the corrective action plan implemented as a result of the SFY03 single audit. Out of the 75 transactions tested one was not compliant. By using the 75 randomly selected documents as a sample set, the EOPS was 98.67% compliant with the corrective action plan implemented and used by staff.

Responsible person:     Derek Lennon  
Implementation date:     Implemented

## **Executive Office of Public Safety Findings on Compliance with Rules and Regulations**

### **Finding Number 45: Salaries Allocated to Federally-Funded Programs are not Supported by Proper Documentation**

The FY2003 single audit report disclosed that the Executive Office of Public Safety (EOPS) did not maintain adequate documentation for salaries charged to federal awards and there was no process in place to determine that salaries charged to a federal program reflect an employee's actual hours spent on that program. As a result of the lack of documentation for salaries and a process to determine the actual salaries to be charged to the federal grants, costs were questioned for the period July 1, 2002 to June 30, 2003 totaling \$816,642.22.

EOPS implemented new policies and procedures to provide proper supporting documentation for all salaries charged to federal grants. A new employee sign-in sheet was designed to track an employee's actual time spent on each grant on a weekly basis. On a weekly basis, each employee was to certify as to whether his or her work was consistent with the anticipated programmatic breakdown. The allocation was periodically compared to the salary chart designed at the beginning of the fiscal year. At the end of each month, the fiscal specialist, independent of the annual salary chart process, was responsible for meeting with employees whose salary apportionment is split across grants to verify that the percentages reported on the weekly sign-in sheets were accurate. On a quarterly basis, the independent fiscal specialist submitted quarterly performance percentages, for each employee paid, in part or wholly, by federal funds to the fiscal manager responsible for updating the annual salary chart.

The fiscal manager responsible for the salary chart was to transfer expenditures, if necessary, across federal grants so that salary allocated to specific grants correlated with actual employee performance. The new policies and procedures were not implemented until January 2004.

OMB Circular A-87 states, in part:

*Where employees are expected to work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Such documentation must meet the following standards including: a) They must reflect an after-the-fact distribution of the actual activity of each employee, b) They must account for the total activity for which each employee is compensated, c) They must be prepared at least monthly and must coincide with one or more pay periods, and d) They must be signed by the employee.*

A review was conducted of nine employee payroll transactions, including a review for compliance with the OMB Circular A-87 requirement for personnel activity reports for individuals charged to multiple programs. EOPS did not maintain personnel activity reports nor did they have a cost allocation system to compare the actual employee's hours to hours charged to the program for July 1, 2003 to December 31, 2003. Salaries, related fringe benefits, and indirect costs are charged to each grant based on a budget developed at the beginning of the fiscal year. As a result, EOPS was not in compliance with OMB Circular A-87 requirements during that period.

The chart below shows the number of employees and the related salary, fringe benefit and indirect costs charged to the Byrne Formula Grant (BFG) and the Juvenile Accountability Incentive Block Grant (JAIBG), and Homeland Security Grants (HSG) I and II. Because of the lack of documentation for the salaries charged and a process to determine the actual salaries to be charged to the federal grants, costs were questioned for the first six months of the audit period, July 1, 2003 to December 31, 2003 as follows:

## Executive Office of Public Safety Findings on Compliance with Rules and Regulations

### Finding Number 45: Salaries Allocated to Federally-Funded Programs are not Supported by Proper Documentation (continued)

<u>Grant</u>	<u>Number of Employees</u>	<u>Salaries</u>	<u>Fringe Benefits</u>	<u>Indirect Cost</u>	<u>Total Questioned Costs</u>
BFG	18	\$229,333	\$53,847	\$52,746	\$335,928
JAIBG	9	75,039	17,619	17,259	109,918
HSG1	5	18,908	4,439	4,348	27,697
HSG2	7	26,504	6,223	6,095	38,823
Total		<u>\$349,786</u>	<u>\$82,129</u>	<u>\$80,450</u>	<u>\$512,367</u>

Furthermore, some employees did not consistently initial the monthly and quarterly worksheets as required in the new policies and procedures developed as a result of the prior year audit result. A test of eight employees revealed that only one initialed the monthly worksheet in January 2004, and three in February 2004. EOPS could not locate the March 2004 monthly worksheet that was initialed by employees and only four of nine employees initialed the April to June 2004 quarterly spreadsheet. EOPS did perform a quarterly spreadsheet review to determine if any noted differences were greater than 10% of the original budgeted ratio for the year. EOPS Programs Division grant manager noted that during FY2004 there were no differences greater than 10% and no adjustments were made by EOPS to the original budgeted ratio.

The fiscal specialist also left employment with EOPS during the middle of July 2004. No one was assigned the responsibility to continue monitoring the process as of the middle of September 2004. Management was aware of these federal requirements. Because of the FY2002 and 2003 single audit findings, regarding salary allocations, the EOPS Programs Division contacted and submitted a proposed plan to the Department of Justice (DOJ) Monitoring Division to ensure that the new plan was in accordance with OMB A-87. (*Department of Justice - Byrne Formula Grant Program 16.579, Juvenile Accountability Incentive Block Grant 16.523, and Department of Homeland Security -- State Domestic Preparedness Equipment Support 16.007/97.004; Fiscal Year 2002: 2003 Single Audit Finding 21*)

### Recommendation

EOPS should reiterate the importance of the policies and procedures that were developed to require proper support for salaries and wages charged to federal programs including periodic certifications and personnel activity reports to comply with OMB Circular A-87. Management should also assign the responsibility of monitoring the process to another staff member to replace the fiscal specialist to ensure continuity of the process. EOPS should ensure that all supporting documentation is properly maintained and can be retrieved to support the corrective action. Further, a person should be assigned the responsibility to monitor and supervise the process.

### Department Corrective Action Plan

The EOPS will continue to implement the corrective action plan from the FY2003 audit. Staffing issues have caused an unanticipated delay in achieving full compliance. That staffing shortfall is being addressed. A new person has been assigned to document, monitor, and supervise the process.

Responsible person:     Derek Lennon  
Implementation date:     January 1, 2005

## **Executive Office of Public Safety Findings on Compliance with Rules and Regulations**

### **Finding Number 46: Excess Federal Cash on Hand at Grantor and Subrecipient Levels**

Our review of Executive Office of Public Safety (EOPS) accounting records and EOPS reviews of subrecipient records revealed that EOPS and their subrecipients did not process federal funds in a timely manner. We noted excess federal funds totaling \$1,948,239 during FY2004. The excess cash on hand is as follows:

- On February 25, 2004, EOPS sent \$1,003,104 in Homeland Security federal grant funds to a town, rather than the Metropolitan Law Enforcement Council (the non-profit organization with the responsibility for disbursing these funds). The town subsequently decided not to be the subrecipient of these funds. The funds were returned to EOPS, however the original check was misplaced. EOPS requested another check from the town. The replacement check was issued to EOPS on April 13, 2004, but was not processed in the Massachusetts Management Accounting and Reporting System (MMARS) until July 26, 2004, over three months after the original date of the refund check. EOPS officials stated that a turnover in an employee position whose responsibilities were to process federal grant refunds partially caused the delay.
- EOPS recorded a Homeland Security federal grant expenditure of \$32,355 in MMARS on July 8, 2003 and drew down the federal funds. However, before the expenditure was disbursed from MMARS, EOPS cancelled the transaction. On September 15, 2003 approximately two months later EOPS processed and disbursed this expenditure in MMARS without adjusting the original draw down. As a result, EOPS had excess federal funds on hand for two months.
- A town expended \$100,000 for Byrne Grant related activities. For this expenditure the town requested reimbursement of only \$73,909 because the town had previously received \$26,091. Records were not available at EOPS to determine how long the town had the excess funds on hand.
- As a result of an onsite visit, EOPS requested a town reimburse the federal Byrne Grant for \$7,752 on June 1, 2004. The town issued a refund check dated June 24, 2004. The check was deposited by EOPS on September 21, 2004, almost three months after the date of the check.
- As a result of reviews of subrecipient records, EOPS contracted with an independent audit firm to conduct a review of subrecipients to determine if funds were being expended, documented, and recorded in accordance with federal laws, regulations and guidelines. The independent auditors reviewed four municipalities and reported the following:
  - a On March 30, 2004, EOPS received a \$409,877 refund for unexpended federal Byrne Grant funds from a municipality. The refund was not processed by EOPS until May 27, 2004 -- almost two months later.
  - b On May 26, 2004, EOPS received a \$80,509 refund for unexpended federal Byrne Grant funds from another municipality. The refund was not processed by EOPS until June 14, 2004 -- over two weeks later.
  - c On April 7, 2004, EOPS requested a refund of \$60,698 from a third municipality for unexpended Byrne Grant funds. The municipality then determined that unexpended funds actually totaled \$123,549. The city submitted a check dated September 20, 2004. The check was deposited on September 21, 2004. Records were not available at EOPS to determine how long the town had the excess funds on hand.

## **Executive Office of Public Safety Findings on Compliance with Rules and Regulations**

### **Finding Number 46: Excess Federal Cash on Hand at Grantor and Subrecipient Levels (continued)**

- d The fourth municipality had \$265,000 in unexpended Byrne Grant federal funds. EOPS is currently working with the town to determine how long the funds have been on hand, whether any of the funds have been expended, and if a refund is due.

The Cash Management Improvement Act (CMIA) was an amendment to the Intergovernmental Cooperation Act, 31 U.S.C 6503. The purpose of this Act is to ensure greater efficiency, effectiveness, and equity in the exchange of funds between the Federal Government and the States. Under this provision 31 U.S.C. 5 (b) of Pub. Law 101-453, States are no longer exempted from payment of interest to the Federal Government for drawing down funds prior to the need to pay off obligations incurred. The provisions of 31 U.S.C. section 6503 (c) (1) require that the States pay interest in the event that the States draw down funds before the funds are needed to pay for program expenses. Further, the Massachusetts General Law Chapter 30, Section 27 requires that:

*Except as otherwise expressly provided, ... money received on account of the commonwealth shall be paid daily into the treasury thereof..*

EOPS officials stated that the \$409,877, \$123,549, and \$7,752 checks would be credited against the 2002 federal Byrne Grant. The \$80,509 check will be credited against the 2001 federal Byrne Grant. As of September 10, 2004 these credits had not yet been processed. (*Department of Justice - Byrne Formula Grant Program 16.579*)

### **Recommendation**

EOPS should develop procedures to ensure that its financial management system can adequately provide support to, and a basis for, accurate financial reports. The EOPS system of internal controls should be improved by the design of appropriate supervisory, monitoring, and reconciliation procedures to reduce the risk of errors and omission and to ensure the proper operations of their financial management system and the reliability of financial reports, as well as compliance with federal regulations. EOPS should incorporate procedures that ensure prompt credits for federal grants to ensure additional federal funds are not drawn down.

EOPS should do timely reconciliation of appropriation account activity to ensure that all credits are accounted for, entered in a timely manner, and entered to the applicable account. Adequate review for the collection of funds due to the Commonwealth should be implemented to ensure all funds due are tracked and diligently followed up on until received.

To comply with Massachusetts General Law Chapter 30 section 27, EOPS should deposit funds received on behalf of the Commonwealth on a daily basis. EOPS should also ensure that the refunds received on behalf of the federal government are promptly credited to the applicable federal grant to avoid drawing down additional federal funds beyond immediate cash needs. Any interest earned on excess federal funds should be submitted to the federal government as required.

**Executive Office of Public Safety  
Findings on Compliance with Rules and Regulations**

**Finding Number 46: Excess Federal Cash on Hand at Grantor and Subrecipient Levels (continued)**

**Department Corrective Action Plan**

The EOPS Programs Division will resume the responsibility of depositing and crediting refunds to the state accounting system in FY05. Additionally the EOPS Programs Division will review the processes and controls in place for reconciling appropriation account activity, and update said processes and controls to ensure all funds due are tracked and diligently followed up on until received.

Responsible person:     Derek Lennon  
Implementation date:    January 1, 2005

## Executive Office of Public Safety Findings on Compliance with Rules and Regulations

### Finding Number 47: Inadequate Supporting Documentation for Expenditures

The FY 2003 single audit disclosed that the Executive Office of Public Safety (EOPS) paid federal funds to subrecipients for the reimbursement of administrative expenses without sufficient documentation supporting the expenditures. As a result \$2,073,565 in costs was questioned. The FY2004 single audit disclosed that 24 transactions tested totaling \$3,304,957 in grant payments to subrecipients for FY2004 were inadequately supported. The total federal funds awarded by EOPS through contracts with subrecipients under the Homeland Security Program (HSG), Byrne Formula Grant Program (BFG), and the Juvenile Accountability Incentive Block Grant Program (JAIBG) was over \$9.6 million for FY2004.

The Commonwealth of Massachusetts Procurement Policies and Procedures Handbook, Chapter 5, Contracts Execution and Management: Payments, states, in part:

*The Contractor shall be required to provide relevant supporting documentation to substantiate any claim for payment of an invoice or to support payments already made by the department.*

OMB Circular A-133 places the responsibility on pass-through entities to monitor the activities of the subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of grant agreements.

Subrecipients submit payment vouchers for reimbursement of expenses along with their quarterly financial reports without breakdown or supporting detail of the expenses such as, payroll, supplies, and equipment. Some subrecipients submitted purchase orders and a price quotation; however, it could not be determined if subrecipients had paid for all the goods, actually received all the goods ordered and paid the amounts listed on the documentation. EOPS' internal policies and procedures state:

*If the subrecipient has incurred an obligation (example: valid purchase order or acquisition) and this obligation will come due, and be paid within three business days of the receipt of funds from EOPS, the subrecipient may request the funds from the state.*

We noted, however, no evidence in the subrecipient files to indicate that EOPS conducted reviews to determine that the obligations for purchase orders and price quotes came due within the required period. Without such information, EOPS cannot be assured that federal funds were disbursed in full for authorized purposes. Our review found that 24 payment transactions totaling \$3,304,957 to subrecipients during FY2004 were inadequately supported, as outlined below:

<u>Grant</u>	<u>Number of Expenditures</u>	<u>Total Questioned Costs</u>
HSG	6	\$2,258,539
BFG	16	841,468
JAIBG	<u>2</u>	<u>204,949</u>
<b>Total</b>	<b><u>24</u></b>	<b><u>\$3,304,957</u></b>

None of the questioned items above were selected by EOPS for on-site visits during FY2004.

In response to the prior audit, EOPS updated its requirements for reimbursement and supporting documentation and developed an educational tool that notifies subrecipients of the documentation to be submitted to EOPS for reimbursement, as well as the documentation to be maintained at the subrecipient level for inspection during fiscal and programmatic site visits. EOPS personnel intend on using this schedule for the next funding cycle of grants.

## **Executive Office of Public Safety Findings on Compliance with Rules and Regulations**

### **Finding Number 47: Inadequate Supporting Documentation for Expenditures (continued)**

EOPS implemented additional procedures that include the requirement for subrecipients to submit documentation with the quarterly report for any single item of equipment purchased in excess of \$5,000. Other expenditure and time records will be reviewed and verified during financial and programmatic site visits. Program managers are required to initial quarterly financial reports to ensure that expenditures are aligned with approved budgets and that there is adequate supporting backup documentation. The grant conditions also include specific language about subrecipients' responsibilities concerning record retention. (*Department of Justice - Byrne Formula Grant Program 16.579, Juvenile Accountability Incentive Block Grant Program 16.523, and Department of Homeland Security - State Domestic Preparedness Equipment Support 16.007/97.004; Fiscal Year 2002; 2003 Single Audit Finding 25*)

#### **Recommendation**

EOPS should continue to implement procedures requiring that subrecipients provide and maintain the information necessary to support payments. These procedures should provide EOPS with assurances that subrecipients are being reimbursed for authorized expenses, as well complying with all required rules and regulations. EOPS should establish procedures to ensure that when subrecipients incur obligations using purchase orders and/or price quotes, that the time requirements that are stated in the EOPS policy are met. The importance of proper and adequate supporting documentation should be reiterated to EOPS and subrecipient staff.

Steps should also be taken to identify those subrecipients that do not comply with EOPS requirements for record submission and retention, as well as applicable laws and regulations. EOPS should then assist them with training and guidance or take whatever sanctions deemed necessary for noncompliance.

#### **Department Corrective Action Plan**

The EOPS does not agree with the six transactions for Homeland Security totaling \$2.258M in questioned costs. The six transactions reviewed had supporting documentation in the form of purchase orders and/or cost statements from vendors for the equipment/services that were to be reimbursed. The Office of Domestic Preparedness (ODP) has determined that purchase orders and/or cost statements constitute sufficient backup documentation for reimbursement under the Homeland Security programs as long as subrecipients made payments to vendors within three business days of the receipt of funds from the EOPS. As noted above in the audit finding narrative, EOPS has developed an educational tool for subrecipients that notifies them as to the documentation required and will continue to provide assistance to subgrantees through workshops and/or conferences.

The following is an excerpt from EOPS guidance to homeland security sub-recipients:

#### ***Reimbursement Guidance for the FY2003 State Homeland Security Grant Program***

*\* Sub-recipients are reminded that all transactions involving federal funds are governed by the United States Department of Justice Financial Guide.*

As discussed previously, this grant is not a fully reimbursable grant. Subrecipients are not required to receive delivery of equipment and expend funds before submitting a reimbursement request to EOPS. Rather, recipients need only submit a proof of obligation to initiate the reimbursement process. Based upon guidance received from the federal government, below is the procedure for reimbursement:

## Executive Office of Public Safety Findings on Compliance with Rules and Regulations

### Finding Number 47: Inadequate Supporting Documentation for Expenditures (continued)

#### Department Corrective Action Plan (continued)

*If the subrecipient has incurred an obligation (example: valid purchase order or acquisition) and this obligation will come due, and be paid within three business days of the receipt of funds from EOPS, the subrecipient may request the funds from the state. The sub-recipient should time the request of funds in such a way that takes into account the time it takes for the state government to process and disburse the funds, and to ensure that federal cash, once received, is a reimbursement for the state dollars paid to sub-grantees.*

Please note that the sub-recipient is responsible for ensuring that there is sufficient time for the reimbursement request to be processed before payment is due to the equipment manufacturer and/or vendor.

Specifically, sub-recipients should allow:

*Twenty-eight days from the date the payment voucher request is submitted to EOPS for the state to process and disburse funds. Any additional time as necessary for your local agency/unit of government to process the transactions(s).*

Responsible person: Derek Lennon  
Implementation date: Implemented

## **Executive Office of Public Safety Findings on Compliance with Rules and Regulations**

### **Finding Number 48: Monitoring of Subrecipients Needs Improvement**

The FY2002 and 2003 single audit reports disclosed that the Executive Office of Public Safety (EOPS or Office) needed to improve its financial monitoring procedures of subrecipients to ensure federal funds are spent in accordance with contract requirements and to ensure that subrecipients have adequate systems of accounting and internal controls. In the corrective action plan, EOPS officials stated that they conduct financial monitoring activities through quarterly financial reports submitted by subrecipients, a quarterly programmatic report, desk reviews, on-site programmatic and financial reviews, and phone contacts. However, there was no process to review financial records of the subrecipients to determine that they have an adequate system of accounting and internal controls to ensure that federal funds are expended properly and in accordance with state and federal laws and regulations.

Further, EOPS did not have a system in place to determine which grantees are required to submit OMB Circular A-133 audit reports. The subrecipients are required by their contracts to submit annual financial statement audits to comply with OMB requirements, if applicable. EOPS relied on the audit reports for monitoring activities; however, it did not receive reports from all subrecipients that were required to submit them. There was no process to review financial records maintained at subrecipients that were not subject to A-133 audits.

EOPS began to improve their subrecipient monitoring procedures. Initiatives have been taken to develop a monitoring plan for all state and federal programs administered. Every effort has been made to keep the requirements similar across programs. The monitoring plan includes a certain percentage of programs to be monitored by fiscal staff who will review the following: accounting systems, internal controls, and compliance with state and federal expenditure regulations.

EOPS has actively performed programmatic monitoring/technical assistance through desk reviews and site visits. The Office established minimum monitoring requirements, detailing the number of total desk reviews, programmatic site visits, and financial site visits as a percentage of total sub-grantees for each program. However, the FY2004 single audit disclosed that while EOPS is making progress in subrecipient monitoring, policies and procedures still need to be enhanced to (1) identify and monitor the subrecipients that are required to submit A-133 audit reports and (2) require on-site visits of subrecipients to determine if the subrecipients were monitoring the work of their independent accounting firms.

EOPS identified excess federal cash being held in subrecipient bank accounts. (See Finding No. 46: *Excess Federal Cash on Hand at Grantor and Subrecipient Levels.*) Subsequently, EOPS hired an independent accounting firm to conduct a review of five subrecipients to determine if funds were being expended, documented, and recorded in accordance with federal laws. These reviews resulted in the return of \$621,688 of federal Byrne Formula Grant funds. This was primarily due to city and town subrecipients not performing proper monitoring activities of the firms with whom they conduct business.

Subrecipients are also required, by their contracts, to obtain and submit annual financial statement audits to comply with OMB Circular A-133, if applicable. A test of the three A-133 reports disclosed that one town's A-133 report was completed one year after the end of the audit period; nine months is the required limit. A review of another A-133 audit report disclosed that the independent accounting firm's management letter was not forwarded to EOPS.

By not monitoring subrecipient financial activity, including receiving all required A-133 audit reports, EOPS cannot ensure that federal awards are used for authorized purposes in compliance with contracts, laws, and regulations, or that fiscal records are being maintained properly and that subrecipients have adequate systems of accounting and internal controls.

## Executive Office of Public Safety Findings on Compliance with Rules and Regulations

### Finding Number 48: Monitoring of Subrecipients Needs Improvement (continued)

EOPS disburses federal funds to subrecipients for the Byrne Formula Grant, Juvenile Accountability Incentive Block Grant, and State Domestic Preparedness Equipment Support programs. According to OMB Circular A-133, Subpart D, Section 400 (d)(3), the responsibilities of pass-through entities include:

*Monitoring the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations and provisions of contract or grant agreements and that performance goals are achieved.*

The Circular, Subpart D, Section 400(d), also states:

*A pass-through entity shall ... for the Federal awards it makes ... (5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.*

OMB Circular A-133, March 2003 Compliance Supplement, Part 3, Section M *Subrecipient Monitoring*, further states that:

*Monitoring activities may take various forms, such as reviewing reports submitted by the subrecipient, performing site visits to the subrecipient to review financial and programmatic records and observe operations, arranging for agreed-upon procedures, and engagements for certain aspects of subrecipient activities, such as reviewing the subrecipient's single audit or program-specific audit results, and evaluating audit findings and the subrecipient's corrective action plan.*

In addition to federal regulations, the *Commonwealth of Massachusetts' Procurement Policies and Procedures Handbook*, Chapter 5, Contract Execution and Management Monitoring and Evaluating Contractor Performance and Compliance, states in part:

*The Commonwealth has a responsibility to conduct monitoring and evaluation of the commodities and services it purchases. These activities can assist in identifying and reducing fiscal and programmatic risk as early as possible thus protecting both public funds and clients being served. Contract managers are responsible for monitoring contractor performance and other issues that arise during the life of the contract. In developing monitoring and evaluation procedures, the Commonwealth, through its departments should strive for methods that rely on, among other things, national or industry standards and which are coordinated, cost efficient and appropriate to the level of risk to the Commonwealth in the purchase of the commodities or services.*

With regard to the A-133 audit reporting requirement, all EOPS federal grant application instructions include a "Sub-grantee Requirements" section stating:

*Local units of government whose towns or municipalities that expend \$500,000 or more in a year in Federal awards shall have a single or program-specific audit conducted for that year in accordance with the provisions of the Office of Management and Budget's circular A-133. Applicant local units of government must submit a copy of their [most recent Fiscal Year] audit along with their grant applications.*

The subrecipient grant conditions that must be signed by an authorized official upon receiving an award from EOPS contains a clause reminding them that an A-133 audit report "should be made annually but not less frequently than every two years." The grant conditions document is being revised to state that the audit report must also be submitted to EOPS if an audit is completed during the project period.

EOPS has made numerous financial and programmatic site visits in an effort to achieve the performance goals set out by management. Programmatic and financial site visit reports are formulated after the visit and are recorded on agency databases. (*Department of Justice - Byrne Formula Grant Program 16.579, Juvenile Accountability Incentive Block Grant 16.523 and Department of Homeland Security - State Domestic Preparedness Equipment Support 16.007/97.004; Fiscal Year 2002; 2003 Single Audit Finding 24*)

## **Executive Office of Public Safety Findings on Compliance with Rules and Regulations**

### **Finding Number 48: Monitoring of Subrecipients Needs Improvement (continued)**

#### **Recommendation**

EOPS should continue to implement the corrective action plan to (1) perform financial reviews of subrecipient records to ensure that they have adequate systems of accounting and internal controls, (2) perform on-site reviews of subrecipient records to ensure federal awards are used for authorized purposes in compliance with state and federal laws, regulations and provisions of contracts or grant agreements and that performance goals are achieved; (3) enforce policies that require applicable subrecipients to obtain and submit annual financial statement audits that comply with OMB Circular A-133; and (4) ensure subrecipients are performing adequate monitoring regarding the expenditure and disbursement of federal funds.

Furthermore, EOPS should review each subrecipient's financial statement audit, findings, and corrective action plan. EOPS should also obtain not only the A-133 audit reports, where applicable, but also all auditor letters or reports from all subrecipients. EOPS should issue management decisions on audit findings within six months of subrecipients' audit reports and ensure that appropriate and timely corrective action takes place.

#### **Department Corrective Action Plan**

The EOPS Programs Division will continue to perform fiscal site visits, programmatic site visits, as well as desk reviews, based on a percentage of programs, to sub-grantees. The Programs Division management team will continue to monitor and ensure that the target number of programs set out for visits and review at the beginning of the year are met by the end of FY05.

The EOPS will develop a system/process that better tracks the submission of audit reports subject to A-133 requirements. The process will include issuing management decisions on audit findings relative to programs administered by the Programs Division within six months of the receipt of the subrecipient audit report.

Responsible person:     Derek Lennon  
Implementation date:     January 1, 2005

## Executive Office of Public Safety Findings on Compliance with Rules and Regulations

### Finding Number 49: Payment Vouchers Approved after Disbursement of Funds

The FY2003 single audit report disclosed that appropriate financial managers who have signatory authority at the Executive Office of Public Safety (EOPS) approved 13 payment vouchers after the payment was made and entered into the Massachusetts Management Accounting and Reporting System (MMARS), the Commonwealth's accounting system. This action is not in compliance with the Commonwealth's bill paying policy. These vouchers were reviewed and approved by program personnel, indicating that the program goods and services were provided; however, program personnel do not have authority to approve payments through MMARS.

In the corrective action plan, EOPS stated that they would develop a new draft process consistent with the Comptroller's MMARS Policy Memo #289. However, our follow-up review disclosed that the practice reported in the FY2003 audit continued in FY2004. Appropriate management employees at EOPS approved eight vouchers totaling \$530,792 after the Commonwealth had disbursed payments. These vouchers were approved from one to eleven business days after being entered into MMARS.

The Office of the Comptroller's MMARS Policy Memo #289, *Commonwealth's Bill Paying Policy*, states, in part:

*B. Manage invoice review/approval process:*

*There are 5 basic steps in the bill payment process.*

*Step 1 - Receipt of Invoice*

*Step 2 - Review Process*

*Step 3 - Approval of Expense*

*Step 4 - Financial Approval*

*Step 5 - Entry into MMARS*

*Each department should review its current steps to process payments. This may result in the identification of steps duplicated unnecessarily, in different levels of the department, sometimes resulting in significant payment delays.*

*An evaluation of the value added at each of these redundant points could result in a streamlined process and reduce the processing time in your timeline. A risk assessment of dollar threshold or program specific concerns may result in only certain payments requiring additional review.*

Without appropriate financial management oversight, adequate review and sign-off of PV's prior to entry to the accounting system and disbursement of funds, EOPS cannot be assured that payments made are appropriate, within grant guidelines and used for the intended purpose of the program. (*Department of Justice - Byrne Formula Grant Program 16.579, Juvenile Accountability Incentive Block Grant Program 16.523, Department of Homeland Security - State Domestic Preparedness Equipment Support 16.007/97.004; Fiscal Year 2003 Single Audit Finding 23*)

### Recommendation

EOPS should develop and implement the policies and procedures to ensure that appropriate EOPS financial managers approve vouchers before their being entered into MMARS. This should include consideration of adding the appropriate managers and staff to the authorized signatory list so that there are sufficient and appropriate personnel to sign and review pertinent documentation to ensure timely, proper, and accurate bill paying.

**Executive Office of Public Safety  
Findings on Compliance with Rules and Regulations**

**Finding Number 49: Payment Vouchers Approved after Disbursement of Funds  
(continued)**

**Department Corrective Action Plan**

The EOPS Programs Division will continue to use the system put in place as a result of the FY2003 single audit. EOPS stated an implementation date of February 1, 2004. Eight vouchers totaling \$530,792 were found to be non-compliant with the Commonwealth's policy for bill paying. All of the aforementioned vouchers were processed before the above-stated implementation date for the corrective action plan. The remaining 67 vouchers tested showed 100% compliance with the agency corrective action plan, as well as the Commonwealth's policy. Due to the compliance percentage, the Programs Division does not find it necessary to increase the number of authorized signatories in the division.

Responsible person:     Derek Lennon  
Implementation date:    Implemented

## **Executive Office of Public Safety Findings on Compliance with Rules and Regulations**

### **Finding Number 50: Improvements Needed over Reconciliations**

The FY2003 single audit report disclosed that the Executive Office of Public Safety (EOPS) was not performing regular reconciliations between its own records, the Massachusetts Management Accounting and Reporting System (MMARS), and the U.S. Department of Justice's LOCES system (the federal cash management system). As a result, EOPS did not detect a cash transfer to the Byrne Formula Grant Program by the Office of the Comptroller (OSC) that should have been posted to the Juvenile Accountability Incentive Block Grant (JAIBG) Program.

In response to the prior audit, EOPS implemented procedures to perform regular reconciliations and works with the Office of the State Treasurer and Receiver General (TRE) to receive monthly federal grant transfer statements. EOPS runs monthly subaccount warehouse draw down queries and matches the requested draws with federal reimbursements received by the TRE in order to develop quarterly grant balances. EOPS has reconciled the Byrne Formula Grant, JAIBG, and State Domestic Preparedness Equipment Supports as of June 2004.

While EOPS has made significant improvements in reconciling federal grants during FY2004, there is still need for improvement. We identified items that were not deposited and credited timely to state appropriation accounts and the applicable federal grant. (See Finding No. 46.) An expenditure refund was also incorrectly made and posted to the wrong account.

Our test of transactions disclosed the following:

- A refund check to the State Domestic Preparedness Equipment Support Program dated April 13, 2004 for \$1,003,104 was misplaced and not posted until July 26, 2004.
- EOPS paid a total of \$465,334 on January 5, 2004 from appropriation account #8000-4691 to reimburse a town for an expenditure to a vendor. The vendor refunded \$465,334. EOPS deposited the refund check on February 17, 2004 and posted it on March 2, 2004 to appropriation account, #8000-4692. On July 2, 2004, EOPS compounded the error by posting an additional refund again for the same amount to the same wrong appropriation. EOPS then posted yet another entry to #8000-4692 totaling \$930,669 on August 3, 2004 in an attempt to correct the posting errors. A final correcting adjusting entry was posted on August 31, 2004.
- Approximately \$7.3 million dollars expended for Homeland Security during FY2004 were not drawn down from the federal grant as of September 15, 2004, because EOPS did not receive or follow-up on an approved federal grant adjustment notice that is required under the grant's special conditions. (See Finding No. 52)

Massachusetts General Law Chapter 30, Section 27 states in part:

*Except as otherwise expressly provided, ...money received on account of the commonwealth shall be paid daily into the treasury thereof...*

## Executive Office of Public Safety Findings on Compliance with Rules and Regulations

### Finding Number 50: Improvements Needed over Reconciliations (continued)

The Office of the Comptroller's, **Internal Control Guide for Departments**, Chapter Three, *Revenue*, states in part:

#### ***Collected Revenue***

*Collected revenues are those that are paid to the department at the point where a service/good has been provided. The department should develop internal controls to ensure that staff who collect or process revenue understand the requirements of state finance law as well as governing policies and procedures issued by the Office of the Comptroller and/or the department. The staff responsible for recording collected revenue should carefully document all revenue activity in accordance with sound management practices and all governing policies. Collected revenue should be deposited into a Commonwealth account on a daily basis. Deposits should be reconciled daily by an individual independent of the collection process. Collected revenue should be reconciled monthly to the state accounting system records and to the monthly bank statement.*

*Collected revenue should be credited to appropriate revenue source and fund, as authorized in statute.*

Untimely or inadequate reconciliations can result in incorrect or invalid entries being made to the Commonwealth's accounting system and the inability to identify all revenues that are due to the Commonwealth. It could also lead to inaccurate reporting of federal funds received and discrepancies between grants, resulting in ineligible draw downs and reimbursement of funds to federal agencies. (Department of Justice - Byrne Formula Grant Program 16.579, Juvenile Accountability Incentive Block Grant Program 16.523, and Department of Homeland Security – State Domestic Preparedness Equipment Support 16.007/97.004; Fiscal Year 2003 Single Audit Finding 26)

### **Recommendation**

EOPS should continue efforts to perform timely reconciliations of all accounts as is required. EOPS should review and revise the reconciliation process to ensure all credits are tracked, accounted for, processed timely, and reflect accurate balances as required by OSC requirements, laws, and regulations. Procedures should include a method to identify funds that may be due to the Commonwealth. Finally, EOPS should implement an adequate monitoring and supervisory review process of adjustments and draw downs of federal funds.

### **Department Corrective Action Plan**

The EOPS Programs Division will review its internal control plan and process for reconciliations and modify or create additional processes to ensure that all credits are tracked appropriately and that funds due to the Commonwealth are accounted for and credited to the appropriate funding stream.

Responsible person:     Derek Lennon  
Implementation date:    February 1, 2005

## Executive Office of Public Safety Findings on Material Weaknesses

### Finding Number 51: Federal Investigation of Byrne Formula Grant Activities

During the FY2003 single audit, it was revealed that former Executive Office of Public Safety (EOPS) employees and subrecipients were, and continue to be, the subject of a federal investigation. The investigation concerns the Byrne Formula Grant funding received during the tenure of those employees. Currently, federal investigators have not disclosed the period under investigation; however, the Byrne Formula Grant is administered by EOPS. During FY2003, EOPS expended \$10,999,270 in Byrne Formula Grant funds. These costs remain questioned until the federal investigation is completed.

The current EOPS Secretary assumed his role in January 2003. Under his direction, a complete review was undertaken of the management, oversight, and grant making practices of EOPS. During this review, it came to the attention of EOPS that the Byrne Formula Grant Program may have lacked adequate and appropriate internal controls, and that the grants awarded to subrecipients under this federal program may not have been managed in compliance with Byrne Formula Grant and EOPS guidelines.

The FY2002, FY2003, and current single audits, disclosed a number of deficiencies in the administration of the Byrne Formula Grant Program. The FY2002 single audit included five findings involving the Byrne Formula Grant with questioned costs totaling \$920,678. The FY2003 single audit contained ten findings involving the Byrne Formula Grant. The questioned costs for the Byrne Program total \$2,634,808. These were included in the total expenditures questioned (\$10,999,270). The current single audit (see finding #47) contains 16 transactions, totaling \$841,468 in questioned costs, where there was insufficient documentation to support expenditures for Byrne Formula Grant funds.

In response to the prior year's single audit, EOPS officials stated the following:

*The Executive Office of Public Safety Programs Division will continue to review the office policies and procedures for awarding and monitoring federal funds. Accountability of federal funds was an influencing factor in consolidating the Executive Office of Public Safety Programs Division into the Secretariat in July of 2003. Since the consolidation, many organizational changes and additional policies and procedures have been developed to enhance internal controls in the Programs Division including: (1) Re-organization of the Programs Division, (2) Open and Competitive Grant Making Process, (3) Bill Paying Standard Policy, and (4) Additional Policies and Procedures.*

*Consistent with Audit Finding No. 10, the Executive Office of Public Safety has notified the State Auditor's Office of potential variances in the Byrne Grant Program pursuant to St. 1989, c. 647. In addition to the internal review commenced in early 2003 of the Byrne Program, the Executive Office of Public Safety continues to work with state and federal authorities to ensure that all variances are thoroughly investigated and referred for subsequent action where appropriate.*

Discussions with EOPS senior and legal staff indicate that this investigation is ongoing. Federal investigators have not disclosed the extent and scope of the investigation. The FY2003 expenditures for the Byrne Formula Grant program totaling \$10,999,270 will continue to be questioned until the federal investigation is concluded. (*Department of Justice – Byrne Formula Grant Program 16.579; Fiscal Year 2003 Finding 28*)

## Executive Office of Public Safety Findings on Material Weaknesses

### **Finding Number 51: Federal Investigation of Byrne Formula Grant Activities (continued)**

#### **Recommendation**

EOPS should complete its internal review of all of its activities and programs with particular emphasis on the administration of the Byrne Formula Grant Program. To the extent practical and appropriate, EOPS should coordinate its internal review with the federal investigation. EOPS should consider conducting on site reviews, having an independent accounting firm or organization conduct reviews of any other subrecipient involved in this investigation to determine if funds should be refunded to the Byrne Formula.

EOPS should also continue to comply with Chapter 647 of the Acts of 1989 by immediately reporting to the Office of the State Auditor (OSA) all unaccounted-for variances, losses, shortages, or thefts of funds or property.

#### **Department Corrective Action Plan**

EOPS continues to fully cooperate with the ongoing federal investigation into certain grants and grant making processes in connection with the fiscal year ending in June 2003, prior to the appointment of Secretary Flynn, and will continue to notify both state and federal authorities of any additional issues regarding the past administration of this program. EOPS has implemented numerous fiscal controls detailed in its 2003 corrective action plan, has new management and personnel assigned to the Byrne Program, and has updated its sub-grant conditions to ensure full compliance with federal and state law. For grants to local units of government, the Byrne program is now awarded through a competitive process that includes an open solicitation and peer review of applications. The EOPS Programs Division has conditioned new funding on each program's having a single fiduciary agent responsible for grant management and has implemented technical and fiscal training as a condition of receiving a grant award.

Responsible person: Management team/Jed M. Nosal, Deputy General Counsel  
Implementation date: Implemented

## Executive Office of Public Safety Findings on Compliance with Rules and Regulations

### Finding Number 52: Internal Controls over Federal Draw Downs Need to be Improved

During FY2004, the Executive Office of Public Safety (EOPS) spent in excess of \$8.1 million dollars of Commonwealth funds for the Homeland Security Programs as of September 15, 2004. More than \$7.3 million dollars of this amount has not been reimbursed to the Commonwealth due to the lack of monitoring and not receiving an approved Grant Adjustment Notice (GAN) from the Department of Homeland Security Office of Domestic Preparedness (ODP).

Our review of the EOPS FY2003 State Domestic Preparedness Equipment Support (SHSGP) main file revealed that EOPS needed to obtain a GAN approval to remove special conditions #4, #5, and #6 from this federal grant. Special provisions are amendments to the federal grant that must be complied with in order to draw down the funds.

One of the special provisions of the grant application, pages 37 to 39 dated, April 18, 2003 submitted on April 22, 2003 states:

*...as the specification for the sub awards is not currently available, the Executive Office of Public Safety is expecting a sub-grant condition prohibiting the release of funds pending the submission and approval of a detailed sub-award budget.*

*The recipient is prohibited from expending or drawing down equipment/exercise/training funds until an equipment/exercise/training budget detail worksheet and/or sub award list is provided to and approved by the program office and a Grant Adjustment Notice (GAN) is issued removing this special condition. Budget worksheets and sub-award lists must be drafted in accordance with the guidelines provided in the fiscal year 2003 State Homeland Security application kit.*

On August 18, 2004, EOPS staff contacted the federal government to determine if the GAN was approved and determined that the ODP did not have the proper format for budget worksheets and/or sub award lists of applicable subrecipients and the GAN was not approved to release the federal funds to EOPS. Furthermore, they were informed that, until the federal government receives satisfactory information to approve the GAN, the maximum amount of the FY2003 federal funds that could be drawn down for planning and administration purposes was \$822,000.

When questioned why these funds had not been draw down, EOPS officials stated that the original federal grant manager was reassigned and replaced with a new grant manager. Until they contacted the new grant manager, they did not know that the original worksheets were not in the required format and that the submission did not contain all of the information that was needed for review and subsequent approval.

The Homeland Security federal 2003 grant for \$11,711,000 consists of four parts:

Planning	\$822,000
Training	\$616,000
Exercise	\$2,055,000 and
Equipment	\$8,218,000

Subsequently, on August 19, 2004, EOPS' SHSGP grant manager submitted 16 detailed budget worksheets of subrecipients to ODP in order to attempt to remedy this problem.

## **Executive Office of Public Safety Findings on Compliance with Rules and Regulations**

### **Finding Number 52: Internal Controls over Federal Draw Downs Need to be Improved (continued)**

As of September 15, 2004, EOPS had only drawn down approximately \$815,000 in federal funds of the \$8.1 million that was expended by the Commonwealth and, as indicated above, the federal government will not allow draw down of the remaining funds until the GAN(s) are approved. EOPS was informed that the normal GAN review and approval process would take about three to five weeks provided everything is satisfactory.

EOPS staff informed us they received notification from ODP on September 24, 2004 that the GAN was conditionally approved for prior funds for equipment (\$8,218,000) and training (\$616,000) for special conditions #4 and #6 based upon receipt of correct information being submitted to ODP. We inquired as to the status of special condition #5 for the release of the \$2,055,000 of exercise funds. However, EOPS had no further information on the release of these funds.

Untimely monitoring, review and follow up of reimbursement from the federal government to the Commonwealth unnecessarily utilizes Commonwealth funds in a time of budget cuts and deficiencies. It also inhibits the Commonwealth from recording reimbursements in a timely manner. It is imperative that EOPS take timely and adequate follow-up action to ensure obtaining federal GAN approval to ensure federal contract compliance and to draw down timely federal fund reimbursements for state expenditures. (*Department of Justice – State Domestic Preparedness Equipment Support 16.007/97.004*)

### **Recommendation**

EOPS should improve their federal grant management system to ensure proper submission and follow-up. EOPS should work to receive timely, the federal Grant Approval Notice (GAN) required to remove federal grant special condition restrictions.

The EOPS grant management system should ensure the necessary monitoring, review and communication to obtain Federal approval of the necessary Grant Adjustment Notice as required by the special conditions of the FY2003 State Domestic Preparedness Equipment Support Program. This system should include timely reconciliations, supervisory review and reporting to senior management. EOPS should, also, inform the Office of the Comptroller (OSC) when the GAN(s) is approved and federal funds are approved for reimbursements for eligible state expenditures on this grant.

### **Department Corrective Action Plan**

The EOPS Programs Division will develop an internal process for ensuring that all federal Grants received are monitored and maintained by agency staff to ensure that Special Conditions attached to grants are met, and the required GANs are obtained and filed to allow for draw down of federal funds.

Responsible person:     Derrick Lennon  
Implementation date:    February 1, 2005

## **Executive Office of Public Safety Findings not Repeated from Prior Years**

1. The Department of Justices' (DOJ), Programs Monitoring Division performed a financial monitoring and assistance review at the Executive Office of Public Safety (EOPS) from March 26 to 28, 2003. In a letter dated May 12, 2003, DOJ made three recommendations relating to the Byrne Formula Grant Program for fiscal years 2000, 2001, and 2002. EOPS responded to the DOJ on June 11, 2003 indicating that correction action would be implemented. EOPS implemented the corrective actions as recommended by DOJ, with completion of the Byrne database and actual balances for active Byrne grants. A letter from the DOJ, Staff Accountant of the Monitoring Division, Office of the Comptroller, Office of Justice Programs, to the Assistant Secretary of EOPS, dated April 29, 2004 stated, "all [3] recommendations [are] officially closed." (*Fiscal Year 2003 Single Audit Finding 27*)
2. EOPS charged the Byrne Formula Grant \$697.60 in July 2002 to buyback a retiring employee's allowable unused leave time under the terms of the Commonwealth's FY2003 Early Retirement Incentive Program. EOPS adjusted the related entries for July 2003 to disburse the one third of leave time buyback for this employee. However, pursuant to Comptroller's Policy Memo #316 this payment was transferred to a state reserve account. (*Fiscal Year 2003 Single Audit Finding 22*)
3. EOPS made advance payment to three cities and towns from the Byrne Formula Grant and the Juvenile Accountability Incentive Block Grant when the payments should have been made on a reimbursement basis. The FY2004 single audit did not disclose any advance payments from these two federal programs. (*Fiscal Year 2003 Single Audit Finding 20*)

## **Office of Child Care Services Background**

The Office of Child Care Services (Office) is authorized by Section 3 of Chapter 28A of the Massachusetts General Laws to be the lead agency to administer child care services within the jurisdiction of the Executive Office of Health and Human Services (EOHHS) and to communicate with other state agencies providing similar or related services outside of EOHHS.

The primary mission of the Office is to invest in our children and the well being of families by creating an integrated, high quality system of childcare. The Office establishes standards for, and monitors childcare programs throughout the Commonwealth. Licenses are issued and renewed through its five regional offices, (West Springfield, Worcester, Beverly, Taunton and Quincy) to over 15,719 providers of child care centers, nursery schools, private kindergartens, family day care homes, school age child care programs, preschool programs, residential and temporary shelter facilities for children, and foster care and adoption placement agencies with capacity to serve 232,162 children. In addition, the Office administers a primary prevention program and the Children's Trust Fund to provide statewide child abuse and neglect prevention services.

In FY2001, the Office developed and implemented comprehensive child care subsidy management software for its Child Care Resource and Referral agencies (CCRR) and its contracted providers. The CCRR system manages all functions of subsidized care including waitlist, intake, eligibility determinations, placements, provider data-agreements, program rates, and attendance, billing, and reporting and query analysis. The provider system manages the same functions except attendance and billing.

In July 2003, the EOHHS was significantly reorganized. This reorganization, which was enacted by the Legislature, reflects the Governor's vision of making state government more efficient and effective in providing services to the citizens of the Commonwealth. As a result, the 17 separate agencies under EOHHS were realigned and grouped into five offices, headed by Secretaries or Assistant Secretaries, reporting to the Secretary of Health and Human Services and reflecting the populations they serve. The five offices are:

- Executive Office of Elder Affairs;
- Department of Veterans' Services;
- Office of Health Services;
- Office of Children, Youth and Family Services; and
- Office of Disabilities and Community Services

The Office of Child Care Services was combined with the other state agencies to form the Office of Children, Youth, and Family Services.

In FY2004, the Office administered \$367.1 million. Federal funds amounted to approximately \$302.7 million. The federal funding to the Office is detailed in the accompanying Schedule of Expenditure of Federal Awards. The Office's major programs were:

<b><u>CFDA #</u></b>	<b><u>Federal Program Description</u></b>
93.575	Child Care and Development Block Grant
93.596	Child Care Mandatory and Matching Funds of the Child Care Development Fund

## Office of Child Care Services Findings on Compliance with Rules and Regulations

### Finding Number 53: Internal Controls over Bill Payments Need Improvements

The Office of Child Care Services (Office) does not have adequate internal controls for the use, review, and payment of cell phone bills. Our review of cell phone use and bill payment for January and March 2004 disclosed that cell phone bills were being paid after the due date and the Office was incurring late fees. More significantly, the cell phones were being used for personal reasons with no review of these bills. The director of accounting was reviewing and approving his own phone use. Cell phone plans were not being reviewed for appropriateness nor was there any indication of the reason some staff members had been provided cell phones. Furthermore, bills were inappropriately charged to the Child Care Quality federal appropriation. In addition, the Office relocated in January 2004; however, the cell phone bills continued to be sent to the old address until June 2004.

Chapter 647 of 1989, An Act Relative to Improving the Internal Controls Within State Agencies states in part:

*Qualified and continuous supervision is to be provided to ensure that internal control objectives are achieved. The duties of the supervisor in carrying out this responsibility shall include (1) clearly communicating the duties, responsibilities and accountabilities assigned to each staff member, (2) systematically reviewing each member's work to the extent necessary and (3), approving work at critical points to ensure that work flows as intended.*

Chapter 647 also sets forth six standards of internal controls, two of which state:

*Segregation of Duties – Departments must establish a system to assign the following essential duties and responsibilities to a number of individuals.*

1. *Authorizing, approving, and recording transactions.*
2. *Issuing and receiving.*
3. *Making payments, and*
4. *Reviewing or auditing transactions.*

*Supervision – Provide qualified and continuous supervision to all staff to ensure that internal control objectives are achieved.*

Additionally, MMARS Memo #289, Commonwealth's Bill Paying Policy requires that “Commonwealth bills should be paid in 30 days. Unless there is financial benefit to the Commonwealth, such as a vendor discount or a specific due date...”

The Office of the Comptroller’s, Internal Guide for Departments, Chapter Three, Department Control Activities, Fiscal Controls, Processing Payments, General Information, states:

*Among other responsibilities, department heads are responsible for assuring that department staff process payment accurately and on the appropriate payment date. The Commonwealth's Bill Paying Policy is to pay all bills in 30 days via Electronic Funds Transfer (EFT). The Commonwealth's policy for the determination of a payment date is as follows:*

- *a specific payment date: The date according to contractual agreements, state plans, state regulations, or a pre-payment discount.*
- *in the absence of guidance per above, the payment date will be approximately 29 calendar days after*
  - a *date services were rendered, goods received or*
  - b *receipt of invoices, whichever is later.*

The Office’s Administrative and Finance Policies and Procedures Manual, Section 8 “Cell Phone Policies and Procedures states clearly that the cell phones are for business use.

## **Office of Child Care Services Findings on Compliance with Rules and Regulations**

### **Finding Number 53: Internal Controls over Bill Payment Need to be Improved (continued)**

As a result of the audit, Office management indicated that they would discontinue using some of the cell phones and replace them with beepers. The section of the Office's internal control plan regarding cell phones is being revised. Bill-paying procedures will be incorporated into the internal control plan. They are reviewing all cell phone bills for the fiscal year and requiring employees to pay for all personal calls. The Office is also reviewing the appropriations and federal grants charged and making corrections where appropriate.

*(Department of Health and Human Services – Child Care and Development Block Grant 93.575)*

#### **Recommendation**

The Office should establish internal controls and written policies and procedures regarding payment of bills that comply with Chapter 647 and the Office of the Comptroller's requirements. These procedures should include, at a minimum, a process to review cell phone plans and use, monitor the payment of bills to ensure timely payment and proper accounts being charged, and establish adequate segregation of duties for a secondary review of monthly bills. The Office should also follow their own procedures on cell phone usage to ensure that personal calls are not being paid. Further, Office management should review the appropriations and federal grants charged and make corrections as necessary.

#### **Department Corrective Action Plan**

The Office is currently updating its internal control process regarding bill payments for services. The Office appreciates the auditors' findings and now realizes the internal controls around certain bill payments, specifically the payment of cell phone bills, were not being followed. Office management was under the misimpression that staff, including supervisors, followed the established controls. The Office is building a secondary review process to ensure that this does not happen again. Towards that end, the Office is strengthening the established controls around segregation of duties. The Office will offer training to managers and supervisors on the newly established internal controls and the importance of following these procedures.

As the finding indicates, the Office has discontinued the use of assigned staff cell phones with the exception of a few senior staff members who may need to be contacted in emergencies. The Office intends to have spare cell phones available in the central office and each region for use by staff, as needed, subject to the prior approved of supervisors. The cell phone bills will be reviewed for business use and appropriateness. The use of text messaging beepers in lieu of cell phones will be tested by staff investigators, subject to proper controls. Currently, the Office's internal controls are being reviewed and new steps will be established to ensure the reassignment of segregated review and approval duties.

In addition, internal controls are being reviewed and strengthened regarding the review of appropriations charged for the use of cell phones and beepers. A quarterly review of cell phone bills by staff that use cell phones and their supervisors for the identification of personal calls and repayment will be implemented. An additional quarterly review of cell phone bills, accuracy of payments, service plan appropriateness, and segregated duties for review and approval will be conducted. Jan Avallone, Chief Financial Officer, is the responsible person to make sure controls are established and followed. The implementation date for establishing and incorporating the new controls around cell phones and other payables will be by January 1, 2005. This will allow the agency to hire and train new staff; communicate control changes to all current staff on requirements of beeper/cell phone use and payables; and finally, to develop internal audit procedures for the Office's quarterly internal audit/reviews.

Responsible person: Jan Avallone, CFO

Implementation date: January 1, 2005

## **Department of Transitional Assistance Background**

The Department of Transitional Assistance's (Department) mission is to provide accurate and timely benefits with respect and courtesy to those in need of the Department's services. In pursuing this goal, the Department provides assistance to over a quarter of a million people in the Commonwealth each month through such programs as Transitional Assistance to Needy Families (TANF), Temporary Aid to Families with Dependent Children (TAFDC), General Relief, Supplemental Security Income, and Food Stamps. The Department also operates the employment services program, which provides basic education, skills training, job referral, career counseling, day care, and transportation services to certain AFDC and Food Stamp clients. The TANF Block Grant, which became effective October 1, 1996, and the beginning of the federal fiscal year, substantially changed the federal funding for these programs and merged the AFDC and JOBS programs into TANF.

During FY2004, the Department administered about \$837.5 million in carrying out its programs. Federal funds, including Federal Food Stamp program funding, amounted to approximately \$700 million.

The federal funding to this Department is detailed in the accompanying Schedule of Expenditures of Federal Awards. The Department's major programs were:

<b><u>CFDA #</u></b>	<b><u>Federal Program Description</u></b>
93.558	Transitional Assistance to Needy Families
10.551	Food Stamps Program
10.561	State Administrative Matching for Food Stamp Program

## **Department of Transitional Assistance Findings on Compliance with Rules and Regulations**

### **Finding Number 54: Food Stamps Status of Claims Against Household Report Filed with Inaccurate Data**

The Food Stamps Report *Status of Claims Against Households (FNS 209)* submitted to the U.S. Department of Agriculture, Food and Consumer Services (USDA/FCS) for the quarter ended December 31, 2003 by the Department of Transitional Assistance (Department) was reviewed by the Food and Nutritional Services (FNS) in February 2004. Unlike previous years, the Department has completed enhancements to the *Benefit Eligibility and Control On-Line Network (BEACON)* accounting system to produce detail documentation to support FNS 209 line items, which allowed FNS to complete a thorough analysis of the FNS 209 data. The report issued by the FNS dated June 2, 2004 recommends specific actions to bring the Department into full compliance with the Food Stamp Program (FSP) regulations at 7 CFR 273.18(m). The Department's corrective action plan submitted to FNS had not been implemented at the time of our testing procedures; consequently, the following deficiencies still exist.

- Over-Payment adjustments are incorrectly reported on Line 3b. Line 14 is incorrectly used to report payments from Electronic Benefit (EBT) accounts.
- BEACON systematically places numerous active food stamp debts "In Queue" rather than automatically collecting through allotment reduction. These claims are not being collected timely due to the "In Queue" status.
- BEACON is not updating information once claim and payment types transfer from one category to another.
- The Department does not establish claims on all overpayments discovered through the Quality Control system as required by 7 CFR 273.18(e)(2)(ii).
- The Department does not meet the requirements of 7 CFR 273.18(a)(3) which require results in claims collections similar to national rates of collection. The Department's collections declined by 47.48% between 2001 and 2003.
- The Department does not compromise claims as required by 7 CFR 273.18(e)(7).
- The Department does not refer delinquent debts to the Treasury Offset Program (TOP) in a timely manner as specified in 7 CFR 273.18(n)(1).

As required by 7 CFR 273.18, the FNS 209 is submitted on a quarterly basis and is used to support the amount of outstanding claims against food stamp recipients and the amount of cash collections and recoupments made during the quarter. The accuracy of these reports is important because the Department must submit to the federal government 65% of the amount collected due to Intentional Program Violations, 80% of the amount collected due to Inadvertent Household Errors, and 100% of the amount collected due to State Agency Administrative Errors. (*Department of Agriculture – Food Stamp Program 10.551; Fiscal Year 1994; 2003 Single Audit Finding 61*)

### **Recommendation**

The Department should implement the FNS recommendations to bring the Department into full compliance with all applicable regulatory provisions.

## **Department of Transitional Assistance Findings on Compliance with Rules and Regulations**

### **Finding Number 54: Food Stamps Status of Claims Against Household Report Filed with Inaccurate Data (continued)**

#### **Department Corrective Action Plan**

The Department agrees with the actions recommend by FNS and has developed and submitted a corrective action plan (CAP) to FNS (as amended October 8, 2004 and submitted to FNS October 13, 2004) to meet these requirements. It is the intent of this Department to fully comply with all applicable statutory and regulatory provisions to ensure that the Massachusetts food stamp recipient claims management system provides both an effective and efficient process for collecting overpayments. As such, the following response summarizes the CAP provisions:

- Over-Payment adjustments are incorrectly reported on Line 3b. Line 14 is incorrectly used to report payments from Electronic Benefit (EBT) accounts.
  - Corrections to the FNS 209 Report will be completed and implemented with submission of the report for the 4<sup>th</sup> Quarter 2004 due to FNS on November 8, 2004.
- BEACON systematically places numerous active food stamp debts “In Queue” rather than automatically collecting through allotment reduction. These claims are not being collected timely due to the “In Queue” status.
  - All food stamp claims in the “In Queue” status have been identified.
  - Necessary systems changes to prevent inappropriate assignment to the “In Queue” status will be implemented with the next BEACON release.
- BEACON is not updating information once claim and payment types transfer from one category to another.
  - Necessary systems changes to develop and implement systems enhancements to modify the method used to change payment type based on eligibility will be implemented with the next BEACON release.
  - Corrections to the FNS 209 Report for transfers will be completed and implemented with submission of the report for the 4<sup>th</sup> Quarter 2004 due to FNS on November 8, 2004.
- The Department does not establish claims on all overpayments discovered through the Quality Control system as required by 7 CFR 273.18(e)(2)(ii).
  - Management controls and procedures have been developed and implemented to pursue all overpayments identified through the Quality Control system.
- The Department does not meet the requirements of 7 CFR 273.18(a)(3) which require results in claims collections similar to national rates of collection. The Department’s collections declined by 47.48% between 2001 and 2003.
  - The Department will propose a policy for terminating inactive accounts for review by the Food and Nutrition Service and the Massachusetts Office of the Comptroller by December 31, 2004. This policy will be incorporated into the agency Claims Management Plan within sixty days from receipt of approval from the federal and state oversight agencies.

## **Department of Transitional Assistance Findings on Compliance with Rules and Regulations**

### **Finding Number 54: Food Stamps Status of Claims Against Household Report Filed with Inaccurate Data (continued)**

#### **Department Corrective Action Plan (continued)**

- Subsequent to approval from FNS and the State Comptroller, the Department will evaluate all delinquent accounts against the write-off policy and provide a file of potential terminated claims to the Massachusetts Office of the Comptroller for approval by April 1, 2005.
- A write-off policy for on-going claims management that meets FNS and state requirements will be developed and implemented within sixty days from receipt of approval from the federal and state oversight agencies.
  
- The Department does not compromise claims as required by 7 CFR 273.18(e)(7).
  - The Department will review state, federal, and department policy and complete an analysis of policy and operational requirements for review and approval by the executive staff by August 31, 2005.
  - Revisions to Department policy will be drafted and distributed for public comment by September 30, 2005. By December 31, 2005, the Department will modify the agency Claims Management Plan.
  
- The Department does not refer delinquent debts to the Treasury Offset Program (TOP) in a timely manner as specified in 7 CFR 273.18(n)(1).
  - The Department is committed to more frequent submission of delinquent debt to TOP and will certify delinquent debt on a semi-annual basis for claims submitted for the address request of January 2005 and July 2005. These claims will be processed using the current manual system. The first quarterly automated address submission will take place in October 2005.

Responsible person: Arthur Locke

Implementation date: November 2004 to April 2005

## **Department of Transitional Assistance Findings on Compliance with Rules and Regulations**

### **Finding Number 55: The BEACON System Lacks the Appropriate Segregation of Duties**

The Benefit Eligibility And Control On-line Network system (BEACON) is an on-line real time, integrated, client server based system used by the Department of Transitional Assistance (Department) to provide all data necessary to determine eligibility and benefit amounts for the Department's Food Stamps, TAFDC, EAEDC, Emergency Assistance, Employment Services and Child Care Programs. The data is collected and entered on-line in real time by Assistance Unit Managers (AU Managers) for each eligible household. The system provides access control at different levels of authorization. However, we noted the lack of appropriate segregation of duties that relate to AU Managers with Level 3 access and above. These individuals can enter household data and approve their own cases, resulting in the ability to establish new cases and other significant benefit change activities and approve them for payment without them being reviewed or approved by other personnel.

The Department identified this issue in February 2002 and has acknowledged that AU Managers with Level 3 access and above have initiation and approval authority, but have indicated that this is consistent with the controls under the old PACES system and does not pose an internal control weakness. During FY2004, 25 Temporary Assistance for Needy Family (TANF) recipient case files were reviewed and in one of these cases (4%), one individual both initiated and approved benefits within the BEACON system.

In response to this issue, during FY2004 the Department implemented the corrective action plan it described in response to last year's finding. The Department developed a report entitled *All Cases Processed by One Individual* to monitor those users given the authority to both initiate and process significant case maintenance activities without supervisory review. The report was to provide a mitigating control to monitor these transactions, and provide for supervisory review and inquiry where deemed necessary. The report was generated in BEACON using specific parameters for users with authorization levels that allow them to process and approve particular case transactions. Case actions that are allowed by one individual are explicitly determined by BEACON authorization levels. However, the Department has acknowledged that the report was incorrectly coded because it reported all transactions processed by users with Level 3 access, resulting in an ineffective report. (*Department of Health and Human Services – Temporary Assistance to Needy Families 93.558; Department of Agriculture – Food Stamp Program 10.551; Fiscal Year 2002; 2003 Single Audit Finding 63*)

### **Recommendation**

We recommend that the cases where an A U Manager with Level 3 authorization has been asked to execute the duties of a supervisor or other A U Manager, be identified in a report. The Department should communicate procedures to substantiate the review of the transactions delineated in the report. These procedures should include a review of both the BEACON system online file and the manual case file before authorizing the transaction. Evidence that the review occurred should also be formally documented.

## **Department of Transitional Assistance Findings on Compliance with Rules and Regulations**

### **Finding Number 55: The BEACON System Lacks the Appropriate Segregation of Duties (continued)**

#### **Department Corrective Action Plan**

In response to issues raised regarding appropriate segregation of duties the Department (1) has clarified procedural expectations regarding benefit issuance, (2) will issue new instructions to clarify procedures that local office staff must follow and will implement additional procedures for documenting exceptional circumstances, and (3) has enhanced the report and clarified instructions for Management review of the report.

To clarify expectations regarding the initiation and review of benefit authorizations, the Department will issue specific written instructions to field staff. These instructions will require all benefit issuances that are new, re-opens and/or increases to be reviewed by personnel other than the individual entering the household data, and to require a Benefit Authorization Level of 3 or above. These clarifications will be communicated to staff no later than March 1, 2005.

Additional instructions will be provided to supervisors and Managers that only in specifically defined emergency circumstances are actions to be authorized by one individual. In these circumstances, the individual taking the action must have a Benefit Authorization Level of 3 or above, and will be required to document in the BEACON Narrative why the action was taken. This will allow for a more informed managerial review. The Department expects to have these instructions developed and communicated to field staff no later than March 1, 2005.

The report entitled "*Transactions Authorized by One Individual*" was developed to assist Field Operations in meeting Internal Control mandates that our procedures guarantee both a second level review of specific authorizations and a separation of duties. This report has been enhanced to identify all transactions that require a Benefit Authorization Level of 3 or above to authorize, and all transactions processed by one individual with a Benefit Authorization Level of 3 and above. Effective October 1, 2004, Transitional Assistance Office Directors were instructed to review (monthly) a sample of transactions delineated in the report, and to validate and confirm that the authorizations were prepared and completed consistent with established guidelines for supervisory sign off. The results of the reviews conducted locally are submitted to Central Office Field Operations each month, for monitoring, review and appropriate follow up.

Responsible person: Nancy Salvucci  
Implementation date: October 1, 2004, March 1, 2005

## Department of Transitional Assistance Findings Not Repeated from Prior Years

1. The Department of Transitional Assistance (Department) was unable to provide all of the documentation used to verify the eligibility of two TANF recipients tested. All cases tested during the 2004 Single Audit contained all appropriate documentation used to verify eligibility. (*Fiscal Year 2003 Single Audit Finding 62*)
2. The Department determined and paid the incorrect assistance for one of 25 TANF recipients tested. All cases tested during the 2004 Single Audit had the correct assistance calculated and paid. (*Fiscal Year 2003 Single Audit Finding 64*)
3. As of April 2002, the Department stopped not performing the Federal Tax Information (FTI) data match. The Department met with the Internal Revenue Service, addressed prior data security concerns, and submitted a System Request to process the information. (*Fiscal Year 2003 Single Audit Finding 65*)

**Commonwealth of Massachusetts  
Higher Education  
Student Financial Assistance Programs at Other Institutions  
Background**

As part of the Single Audit of the Commonwealth, the Office of the Comptroller, the Office of the State Auditor of the Commonwealth and Deloitte & Touche LLP entered into a cooperative agreement to provide the necessary audit coverage for the student financial assistance programs funded by the U.S. Department of Education and administered by the Commonwealth's colleges and universities. The institutions selected for audit were determined using a risk-based approach. The institutions covered by this arrangement are as follows:

**State Colleges**

Bridgewater State College  
Fitchburg State College  
Framingham State College  
Mass. Maritime Academy  
Mass. College of Art  
Mass. College of Liberal Arts  
Salem State College  
Westfield State College  
Worcester State College

**Community Colleges**

Berkshire Community College  
Bristol Community College  
Bunker Hill Community College  
Cape Cod Community College  
Greenfield Community College  
Holyoke Community College  
Massasoit Community College  
Mass. Bay Community College  
Middlesex Community College  
Mt. Wachusett Community College  
North Shore Community College  
Northern Essex Community College  
Quinsigamond Community College  
Roxbury Community College  
Springfield Technical Community College

During FY2004, the Office of the State Auditor performed the audit of the student financial assistance programs at four institutions selected using the risk-based approach. These institutions were: Roxbury Community College, Bunker Hill Community College, Worcester State College, and Bridgewater State College. As a result of these audits, findings are presented for Bunker Hill Community College, Bridgewater State College, and Roxbury Community College.

The University of Massachusetts contracted for an audit in accordance with OMB Circular A-133 for FY2004 with an independent public accounting firm. Separate reports on compliance, internal controls, and a Schedule of Expenditures of Federal Awards, and the Data Collection Form are issued as a result of this audit. The findings resulting from the audit of the University of Massachusetts are excluded from this report.

## **Institutions of Higher Education Bunker Hill Community College Findings on Compliance with Rules and Regulations**

### **Finding Number 56: Outstanding Checks Need to be Transferred to the Office of the State Treasurer's Unpaid Check Fund**

A review of the Bunker Hill Community College (College) Main Bank Account as of June 30, 2004 identified 163 checks totaling \$42,884 that had been outstanding for 12 to 24 months. Of these checks, \$42,778 represented student refunds, for both financial aid and non-financial aid recipients. Of the financial aid recipients, the refunds represented federal and/or state funds.

Chapter 29, Section 32 of the Massachusetts General Laws requires that checks outstanding over one year be transferred to the Office of the State Treasurer and Receiver General's (TRE), Unpaid Check Fund as follows:

*Any check issued by the State Treasurer or by any agent or agency of the Commonwealth, other than checks issued in payment of obligations of the State Board of Retirement and the Teachers' Retirement Board, which is not presented for payment within one year from its date shall be payable only at the Office of the State Treasurer. On the thirtieth day of June in each year the Comptroller shall transfer to the abandoned property fund all funds which are identified by the State Treasurer as funds of the Commonwealth which have remained in the unclaimed check fund for at least one year...*

The College's business office in accordance with the College's internal control manual considers outstanding checks to be classified as abandoned property, and as such has been annually transferring these funds to TRE in accordance with M.G.L. Chapter 200A, which requires funds over three years old to be forwarded to the TRE as abandoned property. Their records indicated that FY2002 and FY2003 abandoned property funds were sent to the TRE, and represented outstanding checks for the periods covering July 1, 1998 through June 30, 2000. College officials indicated that they had discussed this issue with the Controller's of the other community colleges, and were of the opinion that they were following and in compliance with MGL Chapter 200A. College officials believe that both MGL Chapter 29, Section 32, and Chapter 200A apply to unpaid checks and that clarification is needed.

As a result, the College does not comply with General Law Chapter 29, Section 32. Once the college was made aware of this statute, they immediately took the necessary steps to adjust their bank account, determine if any of the outstanding checks represented student accounts from whom a balance is owed the College, and transfer the remaining funds to the TRE. (*Department of Education - Federal Supplemental Educational Opportunity Grants 84.007, Federal Work--Study Program 84.033, and Federal Pell Grant Program 84.063*)

### **Recommendation**

It is recommended that College include in its Internal Control manual the procedure that require the transferring of outstanding checks over one year old to the Unclaimed Check Fund (UCF) within one year of its payable date in accordance with Chapter 29, Section 32 of the M.G.L.s. It is good business practice not to hold onto outstanding checks for three years, even though this complies with Chapter 200A.

### **Department Corrective Action Plan**

After discussing this matter with the audit Team, the College made necessary adjustments and transferred outstanding checks to the UCF pursuant to provisions of MGL Chapter 29 Section 32. The College will revise its internal control manual to include a procedure whereby unclaimed checks over one year old will be transferred to the UCF in accordance with Chapter 29 Section 32 of the M.G.L.s.

Responsible person: Jesse M. Thompson, Vice President of Administration  
Implementation date: Continuing

# Institutions of Higher Education Bunker Hill Community College Findings on Compliance with Rules and Regulations

## **Finding Number 57: Controls Needed Regarding Distribution of College Work-Study Paychecks**

Bunker Hill Community College (College) received \$216,624 in Federal Work-Study (FWS) Funds for the period July 1, 2003 through June 30, 2004. Approximately 137 students participated in the FWS program for this period.

Our review of the program included gathering information on the procedures for determining the needs of the College for FWS jobs, communicating availability of these positions to interested qualified students, awarding FWS funds, describing and verifying work performed, testing of the payments made to a sample of students participating in the program, analyzing the paychecks issued, and reviewing the College's payment procedure.

While interviewing payroll personnel concerning the procedures for distributing FWS paychecks, an instance of a student receiving a check without showing a student ID or other form of identification was observed. The student did not sign for the receipt of the paycheck. We questioned personnel within the College's payroll office regarding the procedural requirements for picking up FWS paychecks and were informed that students were not required to show an ID or sign for checks. The only exception to this procedure was when another person was picking up the paycheck for a FWS student. That person was required to sign for the paycheck, but was not required to show any form of identification or authorization to pick up the check on another student's behalf.

The *Financial Aid Payroll Process and Student Check Distribution* procedure as stated in the College's internal control policy, states that:

*"The payroll process involves first paying the students' financial obligation to the College and, then distributing the balance to the students. Checks may be picked up at the Bursar's Office with prior approval. Otherwise, they are mailed to the students. Student ID or other identification card with the student's picture on it is required when the checks are picked up."*

Personnel within the Bursar's Office had not been instructed to verify identification of students requesting their FWS checks. The human resource manager was not aware of the requirement in the internal control policy. The lack of a requirement for identity verification, signature for FWS paychecks, and authorization to pick up paychecks on another student's behalf, makes the College vulnerable for potential theft or abuse of these funds. (*Department of Education - Federal Work-Study Program 84.033*)

### **Recommendation**

The Payroll office should begin the practice of requiring a student ID or other identification in distributing FWS checks. To further safeguard the receipt of FWS paychecks, students should also be required to sign a distribution record upon receipt of the paycheck, and provide authorization to pick up a paycheck on another student's behalf. These actions would provide proper documentation for each student receiving FWS funds.

### **Department Corrective Action Plan**

Effective with the September 24, 2004 pay period, staff in the College's payroll office implemented a procedure whereby a student must show identification and sign a distribution record upon receipt of a paycheck. In addition, one must provide authorization to pick up another person's paycheck.

Responsible person: Jesse M. Thompson, Vice President of Administration  
Implementation date: September 24, 2004

## **Institutions of Higher Education Bridgewater State College Findings on Compliance with Rules and Regulations**

### **Finding Number 58: Fraudulent Time Records Submitted by a Student in the College Work-Study Program**

Bridgewater State College (College) discovered fraudulent timesheets within its Federal Work-Study Program (FWS) resulting in a theft of \$998. A student submitted false timesheets to the College's payroll department for work that was not performed during four weeks of the spring semester of 2003 and during six weeks of the spring semester of 2004. The student perpetrated this fraud by forging the signatures of the supervisors' of the CWS programs for which he was employed.

FWS students are allowed to work no more than 40 hours in a two-week pay period and only 20 hours each week. The student in question submitted a timesheet for 104 hours in a two-week pay period in the spring of 2004. This alerted College staff to a problem. Their review of student payroll identified this as a potential overpayment, along with possible forged signatures and timesheets that were not on the College's standard preprinted form.

A subsequent investigation by the human resources department uncovered the timesheet discrepancies noted. The College staff notified college security of this potential overpayment and related suspicious activity. A subsequent investigation by law enforcement authorities has led to the arrest of the student. The case is pending further prosecution.

The College is required by 34 CFR 675.19 (2)(i), as cited below, to establish fiscal procedures to have safeguards in place over the certification of student's FWS program work, prior to making a payment to the student.

*Include a certification by the student's supervisor, an official of the institution or off-campus agency that each student has worked and earned the amount being paid. The certification must include or be supported by, for students paid on an hourly basis, a time record showing the hours each student worked in clock time sequence, or the total hours worked per day;*

The College's Student Employment Manual also states in part that:

*"...All time off should be discussed in advance and approved by the supervisor. Student employees are expected to contact their direct supervisor to report tardiness or absence. All work-study and College-funded student employees must fill out timesheets to record time worked. Timesheets are mailed to the department and should arrive the day before the new pay period begins. If a student does not receive an expected timesheet, please contact a Student Employment representative. (New student employees may have to obtain a hand-written timesheet directly from Student Employment Services).*

*The supervisor is responsible for submitting timesheets to the Payroll Office by noon on the due date in order to produce a paycheck by the next Friday. The due date is five days after the end of the pay period. This allows the student ample time to have the timesheet completed and submitted with the authorized signature(s). It is the student's responsibility to get the timesheet to his or her supervisor to be signed. Once signed it is the supervisor's responsibility to submit all timesheets. Student employees will not be paid without a signed timesheet."*

Because of this instance, we tested student timesheets for February and March of 2004 to determine if there were adequate internal controls over the CWS payroll and whether the payroll was proper and adequately documented. Our review disclosed the following:

- Some department supervisors did not comply with College requirements for submitting timesheets to the payroll office. Instead they returned the timesheets to the students, who in turn, would submit them to the payroll office

**Institutions of Higher Education  
Bridgewater State College  
Findings on Compliance with Rules and Regulations**

**Finding Number 58: Fraudulent Time Records Submitted by a Student in the College Work-Study Program (continued)**

- Students did not use the College's required pre-printed timesheets in all instances. In some instances the College accepted timesheets without the payroll systems pre-printed control features, which includes the pay period, pay rate, employee identification number, return date, accounts to be charged and the student's classification title. Students were allowed to fill in the control information and submit timesheet to the payroll office, thus circumventing the College's internal controls. Our review of 1,375 timesheets disclosed that 124 timesheets or 9% were not submitted with the pre-printed information and that the student filled in the information.
- Appropriate signatures were not on the timesheets in accordance with the College's policies and procedures. Our review of 1,375 timesheets disclosed that 41 timesheets did not have a student signature and 11 timesheets did not have a supervisor's signature.

The College plans to revise the student handbook concerning the FWS program, streamline the timesheet process, and begin to more closely monitor both the awards to students and the status of those awards as the academic year progresses. The student employment office has begun to implement management controls within FWS programs by increasing the review of the payments to work-study students.

Once the College's Controller determined that a fraudulent payment was made from FWS monies, she immediately reimbursed the FWS program with College funds. (*Department of Education - Federal Work-Study Program 84.033*)

**Recommendation**

The College should review and improve its internal controls within its FWS program. Procedures must be put into place to ensure that internal controls are functioning as intended. These internal controls must also be extended throughout all College departments participating in the FWS program. College staff should be advised of their responsibilities with regard to payroll procedures and student employee practices. The College should periodically review these procedures and provide ongoing oversight to prevent conditions cited from recurring.

**Department Corrective Action Plan**

As part of updating the internal control plan, the Office of Human Resources will revise the policies and procedures surrounding the FWS program. To ensure compliance, the updated policies and procedures will be communicated to all College departments.

Responsible person: Peter Martel, Associate Vice-President, Human Resources  
Implementation date: June 30, 2005

**Institutions of Higher Education  
Bridgewater State College  
Findings on Compliance with Rules and Regulations**

**Finding Number 59: Student Loan Disbursement not Made in Required Timeframe**

Bridgewater State College (College) did not comply with regulations that require it to make at least two disbursements during a payment period in the Direct Student Loan Program.

Our review of five student files disclosed that one student who received a Direct Student Loan for the spring 2004 semester received only one disbursement totaling \$1,724 on February 13, 2004. The student should have received a \$862 loan disbursement at the beginning of the semester and a \$862 loan disbursement after the midpoint of the semester as required by 34 CFR 685.301(b) as follows:

*" If a loan period is one payment period, the school must make at least two disbursements during that payment period. The school may not make the second disbursement until the calendar midpoint between the first and last scheduled days of class of the loan period.*

By not adhering to regulations regarding the disbursement of funds to students, students may receive funds they are not entitled to. This provision also places the inherent responsibility upon the College to ensure successful academic progress is being made by the student before disbursement of final loan proceeds. (*Department of Education - Direct Student Loan Program 84.268*)

**Recommendation**

The College should comply with regulations regarding the disbursement of Title IV funds to students.

**Department Corrective Action Plan**

In accordance with Federal regulations, the College's policy is to make two disbursements in one semester for Direct Stafford loans. Due to an oversight, the above mentioned student was initially awarded for the entire academic year but chose to enroll for one semester only, therefore requiring a manual adjustment. During this manual process, his pay code was inadvertently entered in error, which caused the student to receive his correct loan amount, but in one disbursement.

Responsible person: Janet Gumbris, Director of Student Financial Aid  
Implementation date: Completed

**Institutions of Higher Education  
Bridgewater State College  
Findings on Compliance with Rules and Regulations**

**Finding Number 60: Untimely Student Exit Counseling Sessions and Inadequate Coordination between College Departments for the Administration of the Federal Perkins Loan Program**

Bridgewater State College (College) was not timely in conducting exit counseling sessions with students, and complying with the due diligence requirements regarding the coordination of information among its departments that manage and administer Federal Perkins Loans (FPL). Our review of six student files for students receiving FPL disclosed that:

- Conversion from the grace or deferment status to the repayment status was not timely for six students. Conversion occurred four months after the students were no longer enrolled at least half time.
- Exit counseling and loan repayment schedules were four months late for five students who graduated in May 2003.
- Required 90-day contact after a grace period by the College to inform the student of his/her responsibilities was not done for five students.

Federal regulation, 34 CFR 668, states in part as follows:

*(5) The institution must maintain documentation substantiating the school's compliance with this section for each borrower. . .*

*(c) Contact with the borrower during the initial and post deferment grace periods.*

*(1)(i) For loans with a nine-month initial grace period (NDSLs) made before October 1, 1980 and Federal Perkins loans), the institution shall contact the borrower three times within the initial grace period.*

*(ii) For loans with a six-month initial or post deferment grace period (loans not described in paragraph (b)(1)(i) of this section), the institution shall contact the borrower twice during the grace period.*

*(2)(i) The institution shall contact the borrower for the first time 90 days after the commencement of any grace period. The institution shall at this time remind the borrower of his or her responsibility to comply with the terms of the loan and shall send the borrower the following information:*

*(A) The total amount remaining outstanding on the loan account, including principal and interest accruing over the remaining life of the loan.*

*(B) The date and amount of the next required payment.*

The College's Perkins Loan Department was not notified until more than four months after the six students were no longer enrolled at least half time. Procedures were not in place to ensure that students received proper notification and exit counseling for their Perkins Loan repayment responsibilities. Federal regulation, 34 CFR 674.33(a) requires:

*"Repayment Plan. (1) The institution shall establish a repayment plan before the student ceases to be at least a half-time regular student."*

34 CFR 674.42(b) Exit Interview states:

*(1) An institution must ensure that exit counseling is conducted with each borrower either in person, by audiovisual presentation, or by interactive electronic means. The institution must ensure that exit counseling is conducted shortly before the borrower ceases at least half-time study at the institution."*

**Institutions of Higher Education  
Bridgewater State College  
Findings on Compliance with Rules and Regulations**

**Finding Number 60: Untimely Student Exit Counseling Sessions and Inadequate Coordination between College Departments for the Administration of the Federal Perkins Loan Program (continued)**

34 CFR 674.41 Due diligence -general requirements further state:

*(b) Coordination of information. An institution shall ensure that information available in its offices (including admissions, business, alumni, placement, financial aid and registrar's offices) is provided to those offices responsible for billing and collecting loans, in a timely manner, as needed to determine-*

1. *The enrollment status of the borrower;*
2. *The expected graduation or termination date of the borrower;*
3. *The date the borrower withdraws, is expelled or ceases enrollment on at least a half-time basis; and*
4. *The current name, address, telephone number and Social Security number of the borrower.*

The College did not meet the due diligence requirements applicable to the coordination of information mandated for the FPL program because of its lack of communication between departments in managing and administering it. By not having effective procedures in place, the College delayed students from entering their proper grace period before beginning their repayment of the loan. These delays resulted in the students' being given an extended three-month grace period for repayment of their Perkins loans. According to 34 CFR 674.31 (b) 2(B) the repayment period begins nine months after the borrower ceases to be enrolled at least a half-time at an institution of higher education. In addition, the *Federal Student Aid Handbook*, Volume 5 Perkins Loans, 2003-2004, Page 5-24 requires that the initial grace period begin the day after the day in which the borrower drops below half-time enrollment.

Because the College did not exercise due care and diligence in managing and administering the FPL program, it compromises the federal government's ability to effectively administer these Title IV loans. Accurate enrollment status information is the foundation on which the federal government determines deferment eligibility, grace periods, repayment schedules, and the government's payments of interest subsidies. (*Department of Education - Federal Perkins Loans 84.038*)

**Recommendation**

The College should review its procedures to ensure that due care and diligence in managing and administering the Federal Perkins Loan Program. The College must ensure that its departments coordinate accurate changes in student enrollment information on a timely basis, students are notified timely of their repayment responsibilities, students are given timely exit counseling, and students are placed in proper grace period and repayment status.

**Department Corrective Action Plan**

The College does not agree with the finding, but does agree that current policies and procedures can be enhanced to ensure the proper coordination of student enrollment data. The College provides the student with a statement of Rights and Responsibilities before receiving any funds from the Perkins Loan Program. Included in this statement is information about the repayment plan, grace period, and interest rate. At the end of each semester, students are informed of the type of loan received and the amount borrowed for each loan program. They are also instructed that they are required to attend an exit interview, either-on-line or in person, prior to leaving the College.

Responsible person: Janet Gumbris, Director of Financial Aid  
Darlene Costa-Brown, Associate Vice-President/Controller  
Implementation date: June 30, 2005

## Institutions of Higher Education Bridgewater State College Findings on Compliance with Rules and Regulations

### Finding Number 61: Improvements Needed in the Implementation and Updating of Quality Assurance Systems for the Direct Student Loan Program

Bridgewater State College (College) did not implement a quality assurance system required by the U.S. Department of Education (USDOE) to ensure the College is complying with program requirements in the Federal Direct Student Loan program (DSL). College officials did not implement and maintain the Quality Assurance Management Action Plan that it developed in 1996 and has not performed follow-up assessments on a continuous basis.

In order to participate in the DSL program a school must enter into a program participation agreement with the USDOE in which the College is required to comply with applicable regulations. These include the development, implementation, and maintenance of a quality assurance system. The Higher Education Act (HEA) Sec. 454, cited below, requires Colleges to enter into participation agreements with USDOE.

*(a) PARTICIPATION AGREEMENTS - An agreement with any institution of higher education for participation in the direct student loan program under this part shall-*

*(5) Provide for the implementation of a quality assurance system, as established by the Secretary and developed in consultation with institutions of higher education, to ensure that the institution is complying with program requirements and meeting program objectives;*

On July 16, 1996, the College sent a Quality Assurance Certification to the USDOE, attesting that it had completed the DSL program Assurance Management Assessment and the DSL program Quality Assurance Management Action Plan. The College also submitted a Mid-Year Progress Report to USDOE describing the College's progress in carrying out management assessment activities. The Progress Report stated that the College had established a Quality Assurance (QA) file, had initiated, and were progressing as scheduled in the area of management assessment activities. The College's QA file has had no further documentation added since July 16, 1996.

Federal regulation, 34 CFR 685.300 (a)(9), requires the College to implement a QA system, as established by the Secretary and developed in consultation with the College, to ensure that the College is complying with program requirements. The **Federal Direct Loan School Guide** addresses this regulation of development of a Quality Assurance System. The guide in Chapter 4, page 20 states as follows:

*By signing the Direct Loan amendment, a participating school is required to have a quality assurance (QA) system for its Direct Loan Program operations. Each school decides for itself how it ensures data accuracy, internal consistency, timeliness, and effective management procedures. Approaches vary from school to school, depending on the size of the student body, staffing, and degree of automation. ED[Department of Education] does not have specific QA requirements that schools must follow. Each Direct Loan school, however, must:*

- Establish its own QA system and*
- Document its QA activities in a central master file at the school*

*....A QA system helps create a smooth transition to the Direct Loan Program, ensures program integrity and effective stewardship, and maximizes service to students. The reason: QA approaches are designed to anticipate problems that might occur and to identify actual problems early. As a result, a quality assurance system can reduce the number and severity of the problems that might occur as a school implements the Direct Loan Program.*

**Institutions of Higher Education  
Bridgewater State College  
Findings on Compliance with Rules and Regulations**

**Finding Number 61: Improvements Needed in the Implementation and Updating of Quality Assurance Systems for the Direct Student Loan Program (continued)**

This gives a school a framework for developing:

*Direct Loan procedures that are tailored to its resources, organizational structure, and students needs. Quality assurance has the concept of continuous improvement as its basis. It uses the following five steps, which are progressive and interrelated:*

- *Strategic planning,*
- *Employee involvement,*
- *Structured problem solving,*
- *Performance measures, and*
- *Corrective action*

A quality assurance system must be ongoing and continuous due to the changing nature of federal regulations and technological advances in order to determine the effectiveness of the College's administrative procedures. The College should have performed on-going assessments and developed management improvement initiatives, which are reflective of changes in federal requirements. These assessments should have been documented in the College's QA file. College officials should have communicated these initiatives to the appropriate departments involved in the DSL program in order to improve management systems, correct problems, and enhance operations. Not reviewing and updating a QA system may result in a College' inability to detect weaknesses in the system, leading to noncompliance with federal requirements, a lack of effectiveness in their administrative procedures, and institutional management systems. (*Department of Education - Direct Student Loan Program 84.268*)

**Recommendation**

The College should review and update its procedures in order to adhere and comply with the requirements of the HEA and other federal regulations in the implementation and maintenance of a QA system for the Federal Direct Loan Program.

**Department Corrective Action Plan**

The College does not concur with this finding and is in full compliance. In 1996, the College began its participation in the Federal Direct Loan Program. A QA Plan required by USDOE was completed and implemented. The Plan was formulated according to Federal guidelines in order to ensure quality management of the program. It consisted of a Direct Loan Quality Assurance Management Assessment and Management Plan. The Quality Assurance Certification was signed by former President Adrian Tinsley and forwarded to USDOE on July 16, 1996. In order for the College to participate in the Direct Student Loan Program, this assessment was mandatory. For on-going success and adherence to federal guidelines in the program, USDOE does not require institutions to use the assessment worksheets that were initially used to implement the program. Rather, the College assures quality of the program by maintaining a Direct Loan policies and procedures manual to remain compliant with changing institutional practices and federal regulations.

Responsible person: Janet Gumbris, Director of Financial Aid  
Implementation date: June 30, 2005

## **Institutions of Higher Education Roxbury Community College Findings on Reportable Conditions**

### **Finding Number 62: Roxbury Community College Administration Needs Improvement**

During the FY2004 Single Audit, we found that Roxbury Community College (College) made continued progress in improving its administration over Student Financial Assistance (SFA) programs and other financial areas.

Our follow-up audit disclosed improvements in addressing one of the prior year's two audit issues. The College established procedures to document a high school diploma in each student's folder; however, improvements are still needed in the timely reconciliation of non-appropriated funds and documentation of adjustments.

The College provided us with an updated corrective action plan, which disclosed the status of the prior audit findings as of March 3, 2004 as follows:

- The College will move as expeditiously as possible with the full implementation of the Jenzebar system. The managers for the various components of operation (i.e., Business Office, Student Financial Assistance, Registrar's Office, Admissions, etc.) will ensure the timely implementation of the system. The Vice President for Information Technology/Chief Information Officer will provide leadership and coordination for the overall implementation of the system.
- The College will fully implement the Jenzebar financial system by ensuring that all relevant financial data are entered in a timely manner.
- The College initiated the practice of reviewing and updating its policies and procedures annually in FY2003. Individual department heads will be responsible for their department's compliance with policies and procedures.
- The College will continue to improve the administration, documentation, and oversight of SFA programs. The overall improvement of SFA administration has been identified as a major priority for the College and will remain a priority during the years to come.
- The College will continue to implement administrative improvements that were identified in the Corrective Action Plan Update. The improvements will be continually monitored and reviewed by an internal task force of employees.

During our follow-up audit, we determined that the Jenzabar system, although in place and working, is providing insufficient assurance and output documentation. The College, therefore, is not fully confident with the system. The College still relies on other supporting documentation, such as, Excel spreadsheets to summarize the type of data that should be readily available from the Jenzabar system for reporting and verification purposes. The College recognizes that shortfalls still exist and the need to make ongoing improvements continues.

The College has hired a consultant to review, analyze, and make recommendations to the president regarding improvements to the SFA processes. This consultant will also provide assistance with the development and implementation of the Jenzabar general ledger. In addition, the consultant was involved in a newly formed compliance committee. This committee consisted of representatives from administration, financial aid, registration, and the business offices to discuss SFA processing issues. The consultant contract ended on June 30, 2004; however, the Compliance Committee, under the leadership of the Vice President of Administration and Finance and a new Vice President of Enrollment Management and Student Affairs, continues to review SFA processing issues so that the College will be in a position to process financial aid accurately and effectively.

# **Institutions of Higher Education Roxbury Community College Findings on Reportable Conditions**

## **Finding Number 62: Roxbury Community College Administration Needs Improvement (continued)**

As previously discussed in Finding Number 12, the College informed us that outstanding utility bills for the Reggie Lewis Center (RLC) have not been paid over a three-year period. The College did not monitor the financial activity at the RLC; furthermore, there were no written internal controls or detailed policies and procedures on how bills should be processed and paid. The College has taken corrective action and implemented policies and procedures for the RLC to account for, process and pay bills.

The College's independent audit firm issued a report of the College's financial statements for FY2003. The auditor's report identified three reportable conditions, not only in SFA, but also in overall matters that were not corrected from the College's FY2002 audit. The report disclosed that the College did not have 1) a completely integrated general ledger system, 2) an accurate listing of student accounts receivable from its computer software system, and 3) adequate controls in remitting employee retirement withholdings to the appropriate administrator. No new reportable conditions were disclosed. The independent audit firm is currently auditing the College's FY2004 financial statements and following up on the three reportable conditions listed above. (*Department of Education - Federal Supplemental Educational Opportunity Grants 84.007, Federal Work-Study Program 84.033, and Federal Pell Grant Program 84.063; Fiscal Year 2001; 2003 Single Audit Finding 67*)

### **Recommendation**

The College should continue to implement improvements as planned. It must update and monitor its new electronic management database and financial operating system to ensure that these applications are performing as planned. Correction of prior years' audit results should be monitored to ensure that full corrective action is implemented. The College's newly formed compliance committee should continue to review and evaluate the SFA processes and update policies and procedures as needed. All necessary recording of financial awards, activity, and reporting must be monitored with any adjustments being made immediately into the College's electronically controlled operating system.

### **Department Corrective Action Plan**

Compliance committee or subcommittees meet regularly to improve data collection, processes, and output. The College will continue to implement administrative improvements. Improvements will be continually monitored and reviewed by an internal task force of employees.

Responsible person:     Cliff Williams  
Implementation date:    On-going

## **Institutions of Higher Education Findings not Repeated From Prior Years**

1. Quinsigamond Community College (College) needed to improve its practices and procedures in handling outstanding or returned checks. College policies did not ensure compliance with Chapter 29, Section 32 of the Massachusetts General Laws, which requires checks outstanding over one year old to be transferred to the Office of the State Treasurer's (TRE) Unclaimed Check Fund or federal grantee. The College had 98 checks totaling \$29,602 that had been outstanding from 1 to 3 years. The College indicated that they have taken corrective action and immediately began to transfer funds to the Unclaimed Check Fund in accordance with Chapter 29, Section 32 of the Massachusetts General Laws. Currently, the College is remitting outstanding checks over a year old to the TRE's Unclaimed Check Fund or to the federal grantee as applicable. *(Fiscal Year 2003 Single Audit Finding 66)*
  
2. Roxbury Community College (College) awarded Pell Grants to students who did not have a high school diploma or its equivalent. Student files did not contain any evidence that these students had the required high school diploma or its recognized equivalent prior to determining eligibility to receive federal assistance. This finding was a continued finding from the Single Audit of 2002. Currently, the College has taken steps to verify and confirm students having a high school diploma or its equivalent. A review of 25 student files found all students' files contained diplomas or its equivalent. *(Fiscal Year 2003 Single Audit Finding 68)*

# SECTION VI

## Schedule of Expenditures of Federal Awards



**Rockwell with *Golden Rule***

1961, Photograph by Louie Lamone

Throughout his sixty-five year career, Norman Rockwell created images that addressed complex social issues, promoted patriotism, and honored individuals, both celebrated and unknown. In portraying such momentous developments as the two world wars, the civil rights movement, and the race to put a man on the moon, Rockwell helped to build public consensus around national events.

*“Most of the time I try to entertain with my POST covers. But once in a while I get an uncontrollable urge to say something serious.”*

*— Norman Rockwell*



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**Report on the Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended June 30, 2004**

<u>CFDA#</u>	<u>FEDERAL PROGRAM DESCRIPTION</u>	<u>EXPENDITURES</u>
<b>DEPARTMENT OF AGRICULTURE</b>		
10.025	PLANT AND ANIMAL DISEASE, PEST CONTROL, AND ANIMAL CARE	\$ 522
10.064	FORESTRY INCENTIVES PROGRAM	670
10.156	FEDERAL/STATE MARKETING IMPROVEMENT PROGRAM	46,870
10.163	MARKET PROTECTION AND PROMOTION	32,584
10.199	FEDERAL OPERATING REIMB-EGG GRADING	6,082
10.435	STATE MEDIATION GRANTS	54,940
10.550	FOOD DISTRIBUTION	932,643
10.551	FOOD STAMPS - CASH EQUIVALENT	294,920,352
10.553	SCHOOL BREAKFAST PROGRAM	22,945,784
10.555	NATIONAL SCHOOL LUNCH PROGRAM	92,674,898
10.556	SPECIAL MILK PROGRAM FOR CHILDREN	449,339
10.557	SPECIAL SUPPLEMENTAL FOOD PROGRAM	88,978,911
10.558	CHILD CARE FOOD PROGRAM	41,456,432
10.559	SUMMER FOOD SERVICE PROGRAM FOR CHILDREN	4,160,660
10.560	STATE ADMINISTRATIVE EXPENSES FOR CHILD NUTRITION	2,250,269
10.561	STATE ADMIN MATCHING GRANTS FOR FOOD STAMP PROGRAM	29,874,922
10.568	TEMPORARY EMERGENCY FOOD ASSISTANCE (ADMIN COSTS)	1,190,428
10.570	NUTRITION PROGRAMS FOR THE ELDERLY (COMMODITIES)	251,095
10.572	WIC FARMERS' MARKET NUTRITION PROGRAM	514,971
10.576	COMMODITY ASSISTANCE PROGRAM	56,900
10.652	FORESTRY RESEARCH	4,689
10.664	COOPERATIVE FORESTRY ASSISTANCE	785,720
10.999	DEPT OF AGRICULTURE - MISCELLANEOUS	3,542,596
		\$ 585,132,277
<b>DEPARTMENT OF COMMERCE</b>		
11.405	ANADROMOUS FISH CONSERVATION ACT PROGRAM	\$ 12,842
11.407	INTERJURISDICTIONAL FISHERIES ACT OF 1986	303,837
11.419	COASTAL ZONE MANAGEMENT PROGRAM ADMIN GRANTS	2,752,140
11.420	COASTAL ZONE MANAGEMENT ESTUARINE RESEARCH RESERVES	741,417
11.427	FISHERIES DEVELOP&UTILIZATION R&D GRANTS AND COOP AGRMN	205,372
11.454	UNALLIED MANAGEMENT PROJECTS	107,771
11.463	HABITAT CONSERVATION	368,775
11.472	UNALLIED SCIENCE PROGRAM	109,674
11.473	COASTAL SERVICES CENTER	16,688
11.474	ATLANTIC COASTAL FISHERIES COOPERATIVE MANAGEMENT ACT	256,639
11.499	NATIONAL OCEANIC AND ATMOSPHERIC ADMIN-CFDA#UNKNOWN	1,655,568
11.552	NATIONAL TELECOMMUNICATIONS & INFORMATION ADMIN	85,799
		\$ 6,616,522

**Report on the Schedule of Expenditures of Federal Awards  
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<u>CFDA#</u>	<u>FEDERAL PROGRAM DESCRIPTION</u>	<u>EXPENDITURES</u>
<b>DEPARTMENT OF DEFENSE</b>		
12.113	STATE PROGRAM FOR REIMBURSEMENT OF TECHNICAL SERVICES	\$ 1,709,641
12.400	MILITARY CONSTRUCTION, NATIONAL GUARD	356,522
12.401	NATIONAL GUARD MILITARY OPERATIONS AND MAINTNCE PRJCTS	541,306
12.607	COMMUNITY ECONOMIC ADJUSTMENT PLANNING ASSISTANCE	161,939
12.999	DEPARTMENT OF DEFENSE, MISCELLANEOUS	35
		<u>\$ 2,769,443</u>
<b>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>		
14.182	SECTION 8 - NEW CONSTRUCTION/SUBSTANTIAL REHABILITATION	\$ 11,576,881
14.228	COMMUNITY DEVEL BLOCK GRANTS/STATE'S PROGRAM	43,616,651
14.231	EMERGENCY SHELTER GRANTS PROGRAM	2,248,067
14.235	SUPPORTIVE HOUSING PROGRAM	5,324,788
14.238	SHELTER PLUS CARE	2,190,758
14.239	HOME INVESTMENT PARTNERSHIPS PROGRAM	22,325,211
14.241	HOUSING OPPORTUNITIES FOR PERSONS WITH AIDS	1,109,678
14.855	SECTION 8 RENTAL VOUCHER PROGRAM	1,315,455
14.856	SECTION 8 LOWER INCOME HOUSING ASSISTANCE PROGRAM	8,864,325
14.871	SECTION 8 HOUSING CHOICE VOUCHERS	209,971,711
14.900	LEAD-BASED PAINT HAZARD CONTROL PROGRAM	965,740
14.999	DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, MISC	703,258
		<u>\$ 310,212,523</u>
<b>DEPARTMENT OF THE INTERIOR</b>		
15.605	SPORT FISH RESTORATION	\$ 3,837,169
15.611	WILDLIFE RESTORATION	1,064,317
15.614	COASTAL WETLANDS PLANNING, PROTECTION AND RESTORATION	1,043,000
15.616	CLEAN VESSEL ACT	621,748
15.622	SPORTFISHING AND BOATING SAFETY ACT	144,782
15.699	FISH AND WILDLIFE, MISCELLANEOUS	2,274
15.904	HISTORIC PRESERVATION FUND GRANTS-IN-AID	714,323
15.914	NATIONAL REGISTER OF HISTORIC PLACES	40,500
15.916	OUTDOOR RECREATION-ACQUISITION,DEVELOPMENT AND PLNG	2,176,662
15.999	DEPT OF THE INTERIOR - MISCELLANEOUS	71,375
		<u>\$ 9,716,150</u>
<b>DEPARTMENT OF JUSTICE</b>		
16.202	OFFENDER REENTRY PROGRAM	\$ 463,863
16.393	RESIDENTIAL SUBSTANCE ABUSE TREATMENT FOR STATE PRISONERS	560,753
16.523	JUVENILE ACCOUNTABILITY INCENTIVE BLOCK GRANTS	4,210,862

**Report on the Schedule of Expenditures of Federal Awards  
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<u>CFDA#</u>	<u>FEDERAL PROGRAM DESCRIPTION</u>	<u>EXPENDITURES</u>
16.527	SUPERVISED VISITATION, SAFE HAVENS FOR CHILDREN	140,082
16.528	TRAINING GRANTS TO STOP ELDER ABUSE, NEGLECT, AND EXPLOIT	113,170
16.540	JUVENILE JUSTICE/DELINQUENT PREVENT - ALLOC TO STATES	1,206,834
16.542	NATIONAL INSTITUTE FOR JUVENILE JUSTICE AND DELINQUENCY	480,602
16.543	MISSING CHILDREN'S ASSISTANCE	154,224
16.550	CRIMINAL JUSTICE STATISTICS DEVELOPMENT	27,201
16.555	NATIONAL CRIMINAL HISTORY IMPLEMENTATION PROGRAM	1,191,837
16.560	JUSTICE RESEARCH, DEVELOPMENT, AND EVALUATION PROJECT	96,072
16.564	CRIME LABORATORY IMPROVEMENT	787,594
16.575	CRIME VICTIM ASSISTANCE	8,168,506
16.576	CRIME VICTIM COMPENSATION	837,398
16.579	BYRNE FORMULA GRANT	9,134,166
16.580	BYRNE STATE AND LOCAL ENFORCEMENT ASSISTANCE GRANTS	707,482
16.582	CRIME VICTIM ASSISTANCE/DISCRETIONARY GRANTS	12,863
16.585	DRUG COURT DISCRETIONARY GRANT PROGRAM	236,756
16.586	VIOLENT OFFENDER INCARCERATION AND TRUTH IN SENTENCING	1,227,471
16.588	VIOLENCE AGAINST WOMEN FORMULA GRANTS	2,791,454
16.589	RURAL DOMESTIC VIOLENCE AND CHILD VICTIMIZATION ENFRMNT	430,310
16.590	GRANTS TO ENCOURAGE ARREST POLICIES & ENFORCMNT ORDERS	451,676
16.592	LOCAL LAW ENFORCEMENT BLOCK GRANTS PROGRAM	73,939
16.595	EXECUTIVE OFFICE FOR WEED AND SEED	530,114
16.606	STATE CRIMINAL ALIEN ASSISTANCE PROGRAM	6,669,755
16.607	BULLETPROOF VEST PARTNERSHIP PROGRAM	364,384
16.609	COMMUNITY PROSECUTION AND PROJECT SAFE NEIGHBORHOODS	1,163,647
16.710	PUBLIC SAFETY PARTNERSHIP AND COMMUNITY POLICING GROUPS	189,705
16.712	POLICE CORPS	401,354
16.733	NATIONAL INCIDENT BASED REPORTING SYSTEM	124,168
16.999	DEPT OF JUSTICE - MISCELLANEOUS	8,592,855
		\$ 51,541,097

**DEPARTMENT OF LABOR**

17.002	LABOR FORCE STATISTICS	\$ 2,117,309
17.005	COMPENSATION & WORKING CONDITIONS DATA	116,896
17.207	EMPLOYMENT SERVICE	19,191,848
17.225	UNEMPLOYMENT INSURANCE (NOTE 8)	1,958,447,980
17.235	SENIOR COMMUNITY SERVICE EMPLOYMENT PROGRAM	1,601,625
17.245	TRADE ADJUSTMENT ASSISTANCE - WORKERS	18,380,877
17.250	ASSISTANCE TO DISLOCATED WORKERS	18,362
17.253	WELFARE-TO-WORK GRANTS TO STATES AND LOCALITIES	1,312,991
17.258	WIA ADULT PROGRAM	8,297,392
17.259	WIA YOUTH ACTIVITIES	12,243,986
17.260	WIA DISLOCATE WORKERS	35,055,604

**Report on the Schedule of Expenditures of Federal Awards  
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<u>CFDA#</u>	<u>FEDERAL PROGRAM DESCRIPTION</u>	<u>EXPENDITURES</u>
17.262	EMPLOYMENT AND TRAINING ADMINISTRATION EVALUATIONS	197,146
17.266	WORK INCENTIVE S GRANT	1,022,749
17.267	WIA INCENTIVE GRANTS_SECTION 503 GRANTS TO STATES	2,257,666
17.500	OCCUPATIONAL SAFETY & HEALTH	44,191
17.504	CONSULTATION AGREEMENTS	1,467,993
17.600	MINE HEALTH AND SAFETY GRANTS	57,072
17.720	EMPLOYMENT PROGRAMS FOR PEOPLE WITH DISABILITIES	48,290
17.801	DISABLED VETERANS OUTREACH PROGRAM	1,540,885
17.802	VETERANS' EMPLOYMENT PROGRAM	878,921
17.804	LOCAL VETERANS EMPLOYMENT REPRESENTATIVE PROGRAM	1,387,392
17.805	HOMELESS VETERANS REINTEGRATION PROJECT	370,384
		<u>\$ 2,066,057,559</u>
 <b>DEPARTMENT OF TRANSPORTATION</b>		
20.205	HIGHWAY PLANNING AND CONSTRUCTION	\$ 604,409,781
20.218	NATIONAL MOTOR CARRIER SAFETY PROGRAM	2,553,896
20.308	RAIL PLANNING ASSISTANCE	2,262
20.401	PORT SECURITY RISK ASSESMENT	100,000
20.420	TRANSPORT SECURITY	1,191,198
20.505	URBAN MASS TRANSPORT TECHNICAL STUDIES GRANTS	1,935,594
20.507	FEDERAL TRANSIT CAPITAL OPERATING ASSISTANCE	1,042,428
20.509	PUBLIC TRANSPORTATION FOR NONURBANIZED AREAS	2,110,330
20.513	CAPITAL ASSISTANCE-ELDER/DISABLED	2,777,570
20.600	STATE AND COMMUNITY HIGHWAY SAFETY	7,838,679
20.700	PIPELINE SAFETY	636,669
20.703	HAZARDOUS MATERIAL PUBLIC SECTOR TRAINING AND PLANNING	214,311
		<u>\$ 624,812,718</u>
 <b>EQUAL EMPLOYMENT OPPORTUNITY COMMISSION</b>		
30.002	EMPLOYMENT DISCRIMINATION - STATE AND LOCAL	\$ 1,500,600
		<u>\$ 1,500,600</u>
 <b>NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES</b>		
45.024	PROMOTION OF THE ARTS TO ORGANIZATIONS & INDIVIDUALS	\$ 567,400
45.025	PROMOTION OF THE ARTS_PARTNERSHIP AGREEMENTS	97,000
45.026	FOLK AND TRADITIONAL ARTS INITIATIVES	6,560
45.310	STATE LIBRARY PROGRAM	3,514,765
		<u>\$ 4,185,725</u>

**Report on the Schedule of Expenditures of Federal Awards  
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<u>CFDA#</u>	<u>FEDERAL PROGRAM DESCRIPTION</u>	<u>EXPENDITURES</u>
<b>NATIONAL SCIENCE FOUNDATION</b>		
47.074	BIOLOGICAL SCIENCES	\$ 36,750
47.076	EDUCATION AND HUMAN RESOURCES	16,540
		<u>\$ 53,290</u>
<b>VETERANS ADMINISTRATION</b>		
64.005	GRANTS FOR CONSTRUCTION OF STATE HOME FACILITIES	\$ 5,289,868
64.014	VETERANS STATE DOMICILIARY CARE	3,176,247
64.015	VETERANS STATE NURSING HOME CARE	8,431,429
64.016	VETERANS STATE HOSPITAL CARE	95,532
64.203	STATE CEMETRERY GRANTS	5,082,917
		<u>\$ 22,075,993</u>
<b>ENVIRONMENTAL PROTECTION AGENCY</b>		
66.032	STATE INDOOR RADON GRANTS	\$ 166,534
66.034	SURVEYS, STUDIES, INVESTIGATIONS DEMOS RELTNG TO CLEAN AIR	732,406
66.436	GRANTS AND COOPERATIVE AGREEMENTS OF CLEAN WATER ACT	100,000
66.454	WATER QUALITY MANAGEMENT PLANNING	418,293
66.456	NATIONAL ESTUARY PROGRAM	804,846
66.460	NONPOINT SOURCE IMPLEMENTATION GRANTS	20,289
66.461	WETLANDS PROTECTION-STATE DEVELOPMENT GRANTS	99,940
66.463	NATIONAL POLLUTANT DISCHARGE ELIMINATION SYSTEM	96,453
66.471	OPERATOR CERTIFICATION EXPENSE REIMBURSEMENT GRANTS	132,041
66.472	BEACH MONITORING AND NOTIFICATION PROGRAM DEVELOP GRNT	243,454
66.474	WATER PROTECTION GRANTS TO THE STATES	109,228
66.500	ENVIRONMENTAL PROTECTION_CONSOLIDATED RESEARCH	194,474
66.605	PERFORMANCE PARTNERSHIP GRANTS	12,223,798
66.606	SURVEYS, STUDIES, INVESTIGATIONS AND SPECIAL PURPOSE	378,338
66.608	ENVIRONMENTAL INFORMATION EXCHANGE NETWORK GRANT PROGRAM	99,890
66.609	PROTECTION OF THE CHILDREN AND THE AGING PUB HLTH AND ENV	13,233
66.700	PESTICIDES ENFORCEMENT PROGRAM	206,742
66.701	TOXIC SUBSTANCES COMPLIANCE MONITORING PROGRAM	531,034
66.708	POLLUTION PREVENTION GRANTS PROGRAM	36,444
66.709	CAPACITY BUILDING GRANT&COOP AGRMNTS FOR STATES&TRIBES	43,251
66.802	HAZARDOUS SUBSTANCE RESPONSE TRUST FUND	364,366
66.804	STATE UNDERGROUND STORAGE TANKS PROGRAM	159,118
66.805	LEAKING UNDERGROUND STORAGE TANK TRUST FUND PROGRAM	875,734
66.810	CEPP TECHNICAL ASSISTANCE GRANTS PROGRAM	10,872

**Report on the Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended June 30, 2004**

<u>CFDA#</u>	<u>FEDERAL PROGRAM DESCRIPTION</u>	<u>EXPENDITURES</u>
66.811	BROWNFIELD PILOTS COOPERATIVE AGREEMENTS	6,845
66.817	STATE AND TRIBAL RESPONSE PROGRAM GRANTS	860,565
66.999	ENVIRONMENTAL PROTECTION AGENCY - MISCELLANEOUS	1,082,842
		<u>\$ 20,011,030</u>
 <b>DEPARTMENT OF ENERGY</b>		
81.041	STATE ENERGY CONSERVATION	\$ 3,052,718
81.042	WEATHERIZATION ASSISTANCE FOR LOW-INCOME PERSONS	6,480,824
81.079	REGIONAL BIOMASS ENERGY PROGRAMS	21,324
81.090	STATE HEATING OIL AND PROPANE PROGRAMS	3,569
81.119	STATE ENERGY PROGRAM SPECIAL PROJECTS	381,036
81.502	STATE THERMOTREX HIGH TEMPERATURE	21,968
		<u>\$ 9,961,439</u>
 <b>UNITED STATES INFORMATION AGENCY</b>		
82.999	UNITED STATES INFORMATION AGENCY-MISCELLANEOUS	\$ 36,632
		<u>\$ 36,632</u>
 <b>DEPARTMENT OF EDUCATION</b>		
84.002	ADULT EDUCATION - STATE-ADMINISTERED PROGRAM	\$ 10,504,245
84.010	EDUC DEPRIVED CHILDREN - LOCAL EDUCATIONAL AGENCIES	261,620,507
84.011	MIGRANT EDUCATION-BASIC STATE FORMULA GRANT PROGRAM	1,822,829
84.013	NEGLECTED AND DELINQUENT CHILDREN	1,670,402
84.027	HANDICAPPED - STATE GRANTS	225,415,438
84.031	HIGHER EDUCATION - INSTITUTIONAL AID	333,569
84.033	FEDERAL WORK-STUDY PROGRAM	217,844
84.042	STUDENT SUPPORT SERVICES	1,141,588
84.044	TALENT SEARCH	409,693
84.047	UPWARD BOUND	661,969
84.048	VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	20,056,999
84.055	FEDERAL COOPERATIVE EDUCATION GRANT	1,545
84.066	TRIO_EDUCATIONAL OPPORTUNITY CENTERS	132,129
84.069	GRANTS TO STATES FOR STATE STUDENT INCENTIVES	1,073,853
84.116	FUND FOR THE IMPROVEMENT OF POSTSECONDARY EDUCATION	5,628
84.126	REHABILITATION SERVICES - BASIC SUPPORT	42,025,536
84.128	REHABILITATION SERVICES -SERVICE PROJECTS	227,726
84.132	CENTERS FOR INDEPENDENT LIVING	1,562,364
84.161	CLIENT ASSISTANCE FOR HANDICAPPED INDIVIDUALS	191,950
84.162	EMERGENCY IMMIGRANT EDUCATION	52,729
84.168	TEACHER PROFESSIONAL DEVELOPMENT GRANT	2,061
84.169	COMPREHENSIVE SERVICES FOR INDEPENDENT LIVING	90,264
84.173	HANDICAPPED - PRESCHOOL GRANTS	10,573,325

**Report on the Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended June 30, 2004**

<u>CFDA#</u>	<u>FEDERAL PROGRAM DESCRIPTION</u>	<u>EXPENDITURES</u>
84.177	REHABILITATION SERVICES - INDEPENDENT LIVING SERVICES	623,194
84.181	HANDICAPPED INFANTS AND TODDLERS	9,042,613
84.184	SAFE AND DRUG FREE-SCHOOLS AND COMMUNITIES_NTNL PRGRMS	103,620
84.185	BYRD HONORS SCHOLARSHIPS	790,500
84.186	DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	7,885,513
84.187	SUPPORTED EMPLOYMENT SERV FOR HANDICAPPED INDIVIDUALS	800,438
84.190	CHRISTA MCAULIFFE FELLOWSHIPS	4,341
84.195	BILINGUAL EDUCATION_PROFESSIONAL DEVELOPMENT	73,113
84.196	EDUCATION OF HOMELESS CHILDREN AND YOUTH	1,162,897
84.213	EVEN START - STATE EDUCATIONAL AGENCIES	4,539,553
84.215	FUND FOR THE IMPROVEMENT OF EDUCATION	631,597
84.224	TECHNOLOGY ASSISTANCE TO INDIVIDUALS WITH DISABILITIES	491,167
84.235	REHAB SERVICES DEMONSTRATN&TRAING_SPECIAL DEMO PRGRMS	282,059
84.243	TECH-PREP EDUCATION	1,777,775
84.255	LITERACY PROGRAMS FOR PRISONERS	1,096,460
84.257	NATIONAL INSTITUTE FOR LITERACY	362
84.265	REHABILITATION TRAINING STATE VOCATIONAL REHABILITATION	4,540
84.276	GOALS 2000 - EDUCATION SYSTEMIC IMPROVEMENT GRANTS	229,383
84.278	SCHOOL TO WORK GRANT	45
84.281	EISENHOWER PROFESSIONAL DEVELOPMENT STATE GRANTS	458,227
84.282	PUBLIC CHARTER SCHOOLS	4,289,378
84.287	TWENTY-FIRST CENTURY COMMUNITY LEARNING CENTERS	11,191,719
84.298	INNOVATIVE EDUCATION PROGRAM STRATEGIES	7,261,485
84.314	EVEN START-STATEWIDE FAMILY LITERACY PROGRAM	5,237
84.318	TECHNOLOGY LITERACY CHALLENGE FUND	13,662,517
84.323	SPECIAL EDUCATION-STATE PROG IMPROV GRANT FOR CHILD W DIS	763,084
84.326	SPECIAL EDUCATION_Tech ASSISTANCE&DISSEMIN TO IMPRV SVCS	10,361
84.330	ADVANCED PLACEMENT INCENTIVE PROGRAM	72,796
84.332	COMPREHENSIVE SCHOOL REFORM DEMONSTRATION	6,315,578
84.334	GAINING EARLY AWARENESS&READINESS FOR UNDERGRAD PROGS	3,278,267
84.336	TEACHER QUALITY ENHANCEMENT GRANTS	558,428
84.338	READING EXCELLENCE	74,774
84.340	CLASS SIZE REDUCTION	365,112
84.346	OCCUPATIONAL &EMPLOYMENT INFORMATION STATE GRANTS	174,934
84.350	TRANSITION TO TEACHING	332,576
84.352	SCHOOL RENOVATION GRANTS	7,843,839
84.357	READING FIRST STATE GRANTS	19,592,559
84.358	RURAL EDUCATION	223,270
84.365	ENGLISH LANGUAGE ACQUISITION GRANTS	8,647,952
84.366	MATHEMATICS AND SCIENCE PARTNERSHIPS	1,350,365
84.367	IMPROVING TEACHER QUALITY STATE GRANTS	53,614,110
84.369	GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES	6,783,683
84.999	DEPT OF EDUCATION - MISCELLANEOUS	138,093
		\$ 756,341,707

**Report on the Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended June 30, 2004**

<u>CFDA#</u>	<u>FEDERAL PROGRAM DESCRIPTION</u>	<u>EXPENDITURES</u>
<b>NATIONAL ARCHIVES AND RECORDS ADMINISTRATION</b>		
89.003	NATIONAL HISTORICAL PUBLICATIONS AND RECORDS GRANTS	\$ 59,676
		<u>\$ 59,676</u>
<b>DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>		
93.000	HRSA STATE PLANNING GRANT	\$ 89,689
93.003	PUBLIC HEALTH AND SOCIAL SERVICE S EMERGENCY FUND	3,466,345
93.044	SPECIAL PROGRAMS FOR THE AGING-TITLE III, PART B	9,571,583
93.045	SPECIAL PROGRAMS FOR THE AGING - TITLE III, PART C	13,180,742
93.048	SPECIAL PROGRAMS FOR THE AGING - TITLE IV	418,812
93.052	NATIONAL FAMILY CAREGIVER SUPPORT	3,828,313
93.053	NUTRITION SERVICES INCENTIVE PROGRAM	3,386,912
93.103	FOOD AND DRUG ADMINISTRATION RESEARCH	311,367
93.104	CMHS CHILD MENTAL HEALTH SERVICE INITIATIVE	1,145,990
93.110	MATERNAL & CHILD HEALTH CONSOLIDATED PROGRAMS	804,960
93.116	PROJECT GRANTS FOR TUBERCULOSIS CONTROL PROGRAMS	2,380,132
93.118	ACQUIRED IMMUNODEFICIENCY SYNDROME (AIDS) ACTIVITY	589,298
93.127	EMERGENCY MEDICAL SERVICES FOR CHILDREN	159,903
93.130	PRIMARY CARE SERVICES - RESOURCE COORDINATION	66,012
93.136	INJURY PREVENTION AND CONTROL RESEARCH	2,002,900
93.150	MENTAL HEALTH SERVICES FOR THE HOMELESS BLOCK GRANT	1,151,825
93.153	PEDIATRIC AIDS HEALTH CARE DEMONSTRATION PROGRAM	852,127
93.161	HEALTH PROGRAM-TOXIC SUBSTANCES AND DISEASE REGISTRY	672,362
93.162	NATIONAL HEALTH SERVICE CORPS LOAN REPAYMENT PROGRAM	210,936
93.165	GRANTS FOR STATE LOAN REPAYMENT	104,638
93.184	DISABILITIES PREVENTION (DISABILITY AND HEALTH)	353,150
93.197	CHILDHOOD LEAD POISONING PREVENTION PROJECTS	1,312,068
93.206	HUMAN HEALTH STUDIES _APPLIED RESEARCH AND DEVELOPMENT	86,955
93.226	RESEARCH ON HEALTHCARE COSTS, QUALITY AND OUTCOMES	1,120,273
93.234	TRAUMATIC BRAIN INJURY _STATE DEMONSTRATION GRANT PRGM	27,810
93.235	ABSTINENCE EDUCATION	707,402
93.238	COOPERATIVE AGREEMENTS FOR STATE TREATMENT OUTCOMES	22,493
93.239	POLICY RESEARCH AND EVALUATION GRANTS	504,820
93.241	STATE RURAL HOSPITAL FLEXIBILITY PROGRAM	131,498
93.243	SUBSTANCE ABUSE&MNTL HLTH SVC PROJ OF REGIONAL&NATL SIG	150,734
93.251	UNIVERSAL NEWBORN HEARING SCREENING	95,635
93.259	RURAL ACCESS TO EMERGENCY DEVICES GRANT	154,240
93.262	OCCUPATIONAL SAFETY AND HEALTH RESEARCH GRANTS	480,810
93.268	CHILDHOOD IMMUNIZATION GRANTS	25,524,190
93.283	CTRS FOR DISEASE CONTROL - INVESTIGATIONS/TECH ASSIST	33,470,052
93.301	SMALL RURAL HOSPITAL IMPROVEMENT GRANTS	77,824
93.393	CANCER CAUSE AND PREVENTION RESEARCH	258,262

**Report on the Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended June 30, 2004**

<u>CFDA#</u>	<u>FEDERAL PROGRAM DESCRIPTION</u>	<u>EXPENDITURES</u>
93.556	FAMILY PRESERVATION AND SUPPORT SERVICES	5,668,188
93.558	TEMPORARY ASSISTANCE FOR NEEDY FAMILIES	327,045,424
93.563	CHILD SUPPORT ENFORCEMENT	61,800,041
93.565	STATE LEGALIZATION IMPACT ASSISTANCE GRANTS	79,314
93.568	LOW-INCOME HOME ENERGY ASSISTANCE	83,080,346
93.569	COMMUNITY SERVICES BLOCK GRANT	16,910,239
93.570	COMMUNITY SERVICES BLOCK GRANT_DISCRETIONARY AWARDS	31,097
93.575	CHILD CARE AND DEVELOPMENT BLOCK GRANT	118,994,273
93.576	REFUGEE AND ENTRANT ASSISTANCE-DISCRETIONARY GRANTS	568,573
93.583	REFUGEE AND ENTRANT ASSISTANCE-WILSON/FISH PROGRAMS	8,319,099
93.584	REFUGEE & ENTRANT ASSIST-TARGETED ASSISTANCE	1,397,425
93.586	STATE COURT IMPROVEMENT PROGRAM	173,462
93.590	COMMUNITY BASED FAMILY RESOURCE AND SUPPORT GRANTS	638,320
93.596	CHILD CARE MANDATORY AND MATCHING FUNDS CHILD CARE	74,879,523
93.597	GRANTS TO STATES FOR ACCESS AND VISITATION PROGRAMS	208,793
93.599	EDUCATION AND TRAINING VOUCHERS	538,426
93.600	HEAD START	101,134
93.617	VOTING ACCESS FOR INDIVIDUALS WITH DISABILITIES_GRANTS	49,434
93.623	RUNAWAY AND HOMELESS YOUTH	178,810
93.631	ADMINISTRATION ON DEVELOPMENTAL DISABILITIES	1,605,464
93.643	CHILDRENS' JUSTICE GRANTS TO STATES	372,871
93.645	CHILD WELFARE SERVICES - STATE GRANTS	4,375,776
93.647	SOCIAL SERVICES RESEARCH AND DEMONSTRATION	208,230
93.652	ADOPTION OPPORTUNITES	71,727
93.658	FOSTER CARE - TITLE IV-E	105,721,888
93.667	SOCIAL SERVICES BLOCK GRANT	83,665,079
93.669	CHILD/YOUTH/FAM - CHILD ABUSE/NEGLECT - STATE GRANTS	346,613
93.671	FAMILY VIOLENCE AND SERVICES	1,644,107
93.672	CHILD ABUSE CHALLENGE GRANT	4,880
93.767	STATE CHILDREN'S INSURANCE PROGRAM	110,269,518
93.775	STATE MEDICAID FRAUD CONTROL UNITS	1,403,634
93.777	STATE SURVEY AND CERTIFICATION OF HEALTH CARE PROVIDERS	6,693,928
93.778	MEDICAL ASSISTANCE PROGRAM	4,752,773,506
93.779	HEALTH CARE FINANCING R & D AND EVALUATION	572,925
93.913	GRANTS FOR OPERATION OF OFFICES OF RURAL HEALTH	85,418
93.917	HIV CARE FORMULA GRANTS	25,206,727
93.919	BREAST AND CERVICAL CANCER EARLY DETECTION PROGRAMS	8,888
93.926	HEALTHY START INITIATIVE	142,370
93.940	HIV PREVENTION ACTIVITIES-HEALTH DEPT. BASED	9,426,794
93.941	HIV DEMONSTRATION,RESEARCH,PUBLIC AND PROF EDUC PROJECTS	1,424,740
93.942	RESEARCH, TREATMENT, &EDUCATION PROGRAMS LYME DISEASE	389,921
93.943	EPIDEMIOLOGIC RESEARCH STUDIES OF AIDS AND HIV	95,079
93.944	HIV/AIDS SURVEILLANCE	1,276,467
93.945	ASSISTANCE PROGRAM FOR CHRONIC DISEASE PREVENTION & CONTROL	332,354

**Report on the Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended June 30, 2004**

<u>CFDA#</u>	<u>FEDERAL PROGRAM DESCRIPTION</u>	<u>EXPENDITURES</u>
93.947	TUBERCULOSIS DEMONSTRATION ,RESEARCH, PUBLIC&PROF EDUC	33,373
93.952	IMPROVING EMS/TRAUMA CARE IN RURAL AREAS	34,071
93.957	OCCUPTL HLTH&SURVEIL FATALITY ASSESMNT&CNTROL EVALUTN	126,737
93.958	BLOCK GRANTS FOR COMMUNITY MENTAL HEALTH SERVICES	8,634,998
93.959	GRANTS FOR PREVENTION\TREATMENT OF SUBSTANCE ABUSE	39,816,396
93.977	PREV HEALTH SERVICES - SEXUALLY TRANS CONTROL GRANTS	1,604,301
93.978	PREVENTIVE HEALTH SERVICES-SEXUALLY TRANSMITTED DISEASES RESEARCH	461,407
93.982	MENTAL HLTH DISASTER ASSTNC AND EMERGENCY MENTAL HLTH	262,198
93.988	COOP AGREEMENTS STATE-BASED DIABETES CONTROL PROGS	794,525
93.991	PREVENTIVE HEALTH AND HEALTH SERVICES BLOCK GRANT	2,928,477
93.994	MATERNAL AND CHILD HEALTH SERVICES BLOCK GRANT	12,282,811
93.999	DEPT OF HEALTH AND HUMAN SERVICES - MISCELLANEOUS	995,540
		<u>\$ 5,985,628,721</u>
<b>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</b>		
94.004	LEARN & SERVE AMERICA - SCHOOL & COMMUNITY PROGRAMS	\$ 640,969
94.006	AMERICORPS	30,501
		<u>\$ 671,470</u>
<b>SOCIAL SECURITY ADMINISTRATION</b>		
96.001	SOCIAL SECURITY - DISABILITY INSURANCE (NOTE 3)	\$ 33,411,641
96.008	SOCIAL SECURITY BENEFITS PLANNING,ASSTNC&OUTREACH PRGRM	248,579
96.999	SOCIAL SECURITY ADMINISTRATION - MISCELLANEOUS	395,800
		<u>\$ 34,056,020</u>
<b>DEPARTMENT OF HOMELAND SECURITY</b>		
97.003	AGRICULTURAL INSPECTION	\$ 244,904
97.004	STATE DOMESTIC PREPAREDNESS EQUIPMENT SUPPORT PROGRAM	22,095,635
97.005	STATE AND LOCAL HOMELAND SECURITY TRAINING PROGRAM	49,400
97.008	URBAN AREAS SECURITY INITIATIVE	754,066
97.012	BOATING SAFETY FINANCIAL ASSISTANCE	956,300
97.021	HAZARDOUS MATERIALS ASSISTANCE PROGRAM	7,441
97.023	COMMUNITY ASSISTANCE PROGRAM STATE SUPPORT SERVICES	195,544
97.029	FLOOD MITIGATION ASSISTANCE	2,524,227
97.036	PUBLIC ASSISTANCE GRANTS	37,579,973
97.038	FIRST RESPONDER COUNTER-TERRORISM TRAINING ASSISTANCE	20,165
97.041	NATIONAL DAM SAFETY PROGRAM	104,799
97.042	EMERGENCY MANAGEMENT PERFORMANCE GRANTS	2,866,846
97.044	ASSISTANCE TO FIREFIGHTERS GRANT	234,652
97.045	COOPERATING TECHNICAL PARTNERS	18,473

**Report on the Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended June 30, 2004**

<u>CFDA#</u>	<u>FEDERAL PROGRAM DESCRIPTION</u>	<u>EXPENDITURES</u>
97.051	STATE AND LOCAL ALL HAZARDS EMERGENCY OPERATIONS PLAN	2,083,446
97.052	EMERGENCY OPERATIONS CENTERS	70,237
97.053	CITIZEN CORPS	478,866
97.054	COMMUNITY EMERGENCY RESPONSE TEAMS	172,500
97.999	DEPARTMENT OF HOMELAND SECURITY-MISCELLANEOUS	474,396
		<u>\$ 70,931,870</u>
	<b>TOTAL - FEDERAL DEPARTMENTS</b>	<b>\$ 10,562,372,462</b>
10.550	FOOD DISTRIBUTION - DONATED FOOD VALUE (NOTE 4)	10,881,301
	<b>PROGRAMS ADMINISTERED BY:</b>	
	PUBLIC INSTITUTIONS OF HIGHER EDUCATION (NOTE 5)	\$ 82,942,764
	<b>TOTAL</b>	<u><u>\$ 10,656,196,527</u></u>

**Notes to Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended June 30, 2004**

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards is presented on the Commonwealth's statutory basis of accounting. It is drawn primarily from the Massachusetts Management Accounting and Reporting System (MMARS), the centralized accounting system which is the basis for the Commonwealth's combined financial statements - statutory basis as published in the Commonwealth's Statutory Basis Financial Report for the fiscal year ended June 30, 2004.

The Schedule of Expenditures of Federal Awards also includes certain programs administered by the Commonwealth's public institutions of higher education, except for the University of Massachusetts, which issues its own Schedule of Expenditures of Federal Awards and Data Collection Form, and the activity of certain non-cash programs. The detail of such program activity is maintained by the institutions and responsible administrative departments.

Statutory basis expenditures are generally recorded when the related cash disbursement occurs. At year-end, payroll is accrued and payables are recognized for goods or services received by June 30, to the extent of approved encumbrances.

The following is a reconciliation of the Schedule of Expenditures of Federal Awards to the combined financial statements-statutory basis (amounts in thousands):

Total federal revenues per Statutory Basis Financial Report	\$	9,186,657
Add:		
Programs administered by public institutions of higher education		82,943
State share of U. I. funds from Note 8		1,072,943
Expenditures		4,755
Non-cash programs:		
Food stamp script		294,281
Value of donated food		10,881
Vaccine purchases directly by federal government		20,448
Subtract:		
Medicare reimbursements		(16,711)
Total expenditures of Federal Awards per schedule	\$	10,656,197

The Commonwealth receives payments from the federal government on behalf of Medicare eligible patients for whom it has provided medical services at its state-operated medical facilities. Since these payments represent insurance coverage provided directly to individuals under the Medicare entitlement program, they are not included as federal financial assistance. The Commonwealth has generally combined its departmental program accounts by federal catalog number, and it has made a concerted effort to reduce the number of program accounts lacking full catalog number identifiers.

**Notes to Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended June 30, 2004**

**NOTE 2 - REPORTING ENTITY**

The Schedule of Expenditures of Federal Awards includes various departments, agencies, boards and commissions governed by the legislature, judiciary and/or constitutional officers of the Commonwealth of Massachusetts. It also includes research grants and contracts and federally-funded financial assistance to students provided to the Commonwealth's institutions of public higher education, excluding the University of Massachusetts, which is reported separately, and the values of food stamps and commodities received under U.S. Department of Agriculture programs.

The Schedule of Expenditures of Federal Awards does not include federal funds received and expended by independent authorities and other organizations included in the reporting entity under the criteria of the Governmental Accounting Standards Board, as described in Note 1 to the Commonwealth's general purpose financial statements published in the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2004. These authorities and organizations are responsible, where necessary, for obtaining separate audits of their federal awards.

**NOTE 3 - SOCIAL SECURITY DISABILITY INSURANCE PROGRAM**

The Massachusetts Rehabilitation Commission operates the Social Security-Disability Insurance Program and the Supplemental Security Income Disability Program (CFDA 96.001 and 96.006, respectively) under a single state appropriation and departmental program account. On an operating basis, expenditures are allocated between the programs based on medical expenses incurred; personnel and overhead costs are determined by the Social Security Central Office. For the fiscal year ended June 30, 2004 expenditures of \$16,525,343 were attributed to the Supplemental Security Income Disability Program.

**NOTE 4 - DONATED FOOD VALUE**

Donated food represents surplus agricultural commodities received from the U.S. Department of Agriculture valued in accordance with federal guidelines. Commodity inventories at June 30, 2004 totaled approximately \$1,654,649.

**NOTE 5 - HIGHER EDUCATION FEDERAL FINANCIAL ASSISTANCE PROGRAMS**

The 24 public institutions of higher education, excluding University of Massachusetts, record expenditures for financial assistance programs as follows:

Federal Supplemental Educational Opportunity Grant	84.007	\$3,638,734
Federal Work Study Program	84.033	4,303,231
Federal Pell Grants	83.063	60,864,279
Other Federal Student Services	84.999	5,698,360
Student Nursing Loan	93.364	8,438,160
		<u>\$82,942,764</u>

**Notes to Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended June 30, 2004**

**NOTE 6 - FEDERAL FAMILY EDUCATION (FFEL) AND FEDERAL DIRECT STUDENT LOANS (FDL)**

The Schedule of Expenditures of Federal Awards does not include FFEL (CFDA 84.032) nor FDL (84.268) which are made directly to individual students. For Massachusetts' residents, FFEL loans are guaranteed by the American Student Assistance Corporation, which is not part of the reporting entity of the Commonwealth. FDL loans are made directly by the U.S. Department of Education. FFEL loans made to students enrolled in the Commonwealth's public institutions of higher education during fiscal year 2004 totaled \$29,596,681; FDL loans totaled \$29,715,264.

**NOTE 7 - FEDERAL PERKINS LOAN PROGRAM**

The Federal Perkins Loan Program (CFDA 84.038) is administered by the Commonwealth's public institutions of higher education, excluding the University of Massachusetts. Fiscal year 2004 activity included federal revenues of \$277,699, loan repayments of \$2,218,876, and loan funds disbursed of \$3,406,414. Loans outstanding at June 30, 2004 totaled approximately \$16,731,983.

**NOTE 8 – UNEMPLOYMENT INSURANCE PROGRAM (UI) CFDA 17.225**

The U.S. Department of Labor, in consultation with the Office of Management and Budget officials, has determined that for the purpose of audits and reporting under OMB Circular A-133, state UI funds as well as federal funds should be considered federal awards for determining Type A programs. The State receives federal funds for administrative purposes. State unemployment taxes must be deposited to a state account in the Federal Unemployment Trust Fund, used only to pay benefits under the federally approved state law. State UI funds as well as federal funds are included on the Schedule of Expenditures of Federal Awards. The following schedule provides a breakdown of the state and federal portions of the total expended under CFDA Number 17.225:

State UI Funds	\$ 1,072,942,650
Federal UI Funds	885,505,330
Total Expenditures	<u><u>\$ 1,958,447,980</u></u>

**NOTE 9 - PROGRAM CLUSTERS**

In accordance with Subpart A §\_.105 of OMB Circular No. A-133, *Audits of States, Local Governments and Non-Profit Organizations*, the Commonwealth has clustered certain programs in determining major programs. The following represents the clustered programs:

Medical Assistance Program	CFDA# 93.778
Medicaid Fraud Control Unit	CFDA# 93.775
State Survey & Certification of Health Care Providers	CFDA# 93.777
Handicapped-State Grants	CFDA# 84.027
Handicapped-Preschool Grants	CFDA# 84.173
National School Lunch Program	CFDA# 10.555
School Breakfast Program	CFDA# 10.553
Special Milk Program	CFDA# 10.556
Summer Food Service Program	CFDA# 10.559

**Notes to Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended June 30, 2004**

Food Stamps	CFDA# 10.551
State Administrative Matching for Food Stamps	CFDA# 10.561
Student Financial Assistance	Various
WIA Adult Program	CFDA# 17.258
WIA Youth Activities	CFDA# 17.259
WIA Dislocated Workers	CFDA# 17.260
Child Care Block Grant	CFDA# 93.575
Child Care Mandatory & Matching Funds of the Child Care Development Fund	CFDA# 93.596
Special Program for the Aging/Title III Part C	CFDA# 93.045
Special Program for the Aging/Title III Part B	CFDA# 93.044
Nutrition Services Incentive Program	CFDA# 93.053

**NOTE 10 – SUBRECIPIENTS**

In OMB Circular A-133 § 105 subrecipients are defined as non-Federal entities that expend federal awards received from a pass through entity to carry out a Federal program, but do not benefit from that program. In fiscal year 2004, the Commonwealth passed through the following amounts to subrecipients:

<u>CFDA#</u>	<u>Program Name</u>	<u>Total Expenditure</u>
10.163	MARKET PROTECTION & PROMOTION	\$ 10,346
10.555	NATIONAL SCHOOL LUNCH PROGRAM	71,658,311
10.557	SPECIAL SUPPLEMNT FOOD FOR WIC	58,663,101
10.558	CHILD & ADULT CARE FOOD PROGRA	40,992,435
10.559	SUMMER FOOD SERV PROG-CHILDREN	4,050,473
10.560	ST. ADMIN EXP CHLD NUTRITION	14,350
10.568	TEMPORARY EMERGENCY FOOD ASSIS	1,190,428
10.570	NUTRITION PROG FOR THE ELDERLY	314,715
10.664	COOPERATIVE FORESTRY ASSISTNCE	165,262
11.419	COASTAL ZONE MNGT ADMIN AWARD	229,180
11.420	COASTAL ZONE MNGT ESTUARINE RR	19,174
11.454	UNALLIES MANAGEMENT PROJECT	80,000
11.499	MISC NATL OCEANINC&ATMOS ADMIN	417,444
12.607	COMMUN ECON ADJ PLANNING ASST	161,939
14.182	LOW INC HSNG ASST PROG-SECT 8	8,105,913
14.228	COMMUNITY DEVELOP BLOCK GRANTS	42,080,328
14.231	EMERGENCY SHELTER GRANT PROG	1,099,432
14.235	SUPPORTIVE HOUSING PROGRAM	2,889,210
14.238	SHELTER PLUS CARE	591,873
14.239	HOME INVEST PARTNERSHIPS PROG	20,571,931
14.241	HSNG OPPRTN FOR PERSNS W AIDS	1,090,708
14.856	LOW INC HSG ASSIST SEC 8 REHB	8,615,601
14.871	SECTION 8 HOUSING CHOICE VOUCH	209,562,255
14.900	LEAD BSD PAINT HAZ CNTRL PROG	911,812

**Notes to Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended June 30, 2004**

<u>CFDA#</u>	<u>Program Name</u>	<u>Total Expenditure</u>
15.614	COAST WETLND PLAN,PROTECT&REST	\$ 150,000
15.616	CLEAN VESSEL ACT	529,023
15.622	BOATING INFRASTRUCTURE	125,888
15.904	HISTORIC PRESERVATION FUND	79,553
15.916	OUTDOOR RECREAT-ACQU/DVLP/PLAN	1,624,698
16.202	SERIOUS VIOLENT OFFENDER	30,599
16.393	RES SUBST ABUSE TREAT PRISONRS	202,553
16.523	JUVENILE ACCOUNTABILITY INCENT	1,469,901
16.527	SUPERVISED VISITATION/SAFE	125,085
16.540	JVNLE JUST/DELIN PREVENT-STATE	456,839
16.542	NATL INST FOR JUVENILE JUSTICE	436,794
16.575	CRIME VICTIM ASSISTANCE	6,599,524
16.579	BYRNE FORMULA GRANT PROGRAM	6,456,053
16.585	DRUG COURT DISCRETIONARY GRANT	163,000
16.586	VIOLENT OFFEND INCARCERATION	359,213
16.588	VIOLENCE AGNST WOMEN FORM GRNT	1,471,134
16.589	RURAL DOMES VIOL&CHILD VICTIM	340,918
16.592	LOCAL LAW ENFORCEMNT BLOCK GRT	15,664
16.595	EXEC OFFICE FOR WEED & SEED	346,410
16.609	COMMUNITY PROSECUTION AND PROJ	149,923
16.733	NTL INCIDENT BASED REPORTING	96,718
17.207	EMPLOYMENT SERVICE	2,710,147
17.225	UNEMPLOYMENT INSURANCE	7,801,769
17.235	SENIOR COMMUNITY SVC EMPL PRGM	1,496,234
17.253	WELFARE TO WORK GRANTS	1,192,671
17.266	WORK INCENTIVE GRANT	151,000
17.267	WIA INCENTIVE GRANTS	2,257,666
17.720	EMPLOYMENT PROGRAMS FOR PEOPLE	407
17.801	DISABLED VETS OUTREACH	7,907
17.802	VETERANS EMPLOYMENT PROGRAM	775,362
17.804	LOCAL VETS EMPLOY. REP.	6,069
17.805	HOMELESS VETS REINTEGRATION PG	342,711
20.505	FEDERAL TRANSIT TECH STUDIES	1,624,704
20.507	FEDERAL TRANSIT CAP/OPER ASST	957,361
20.509	PUBLIC TRANSPORT NONURBAN AREA	1,852,827
20.513	CAPITAL ASSIST-ELDER/DISABLED	26,129
20.600	STATE&COMMUNITY HIGHWAY SAFETY	1,067,357
20.703	HAZ MATERIALS TRNG&PLANG GRNTS	45,356
45.024	PROMOTION OF THE ARTS GRANTS	567,400
45.025	PROMOTION OF THE ARTS PARTNER	97,000
45.026	PROM OF ARTS-LEADERSHP INIT	6,560
45.310	LSTA STATE GRANTS	1,629,112
66.436	SURVEYS, STUDIES, INVESTIGATIO	100,000
66.454	WATER QUALITY MNGMNT PLA NNING	219,101
66.456	NATIONAL ESTUARY PROGRAM	5,500
66.460	NONPOINT SOURCE IMPLMNT GRANTS	20,289

**Notes to Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended June 30, 2004**

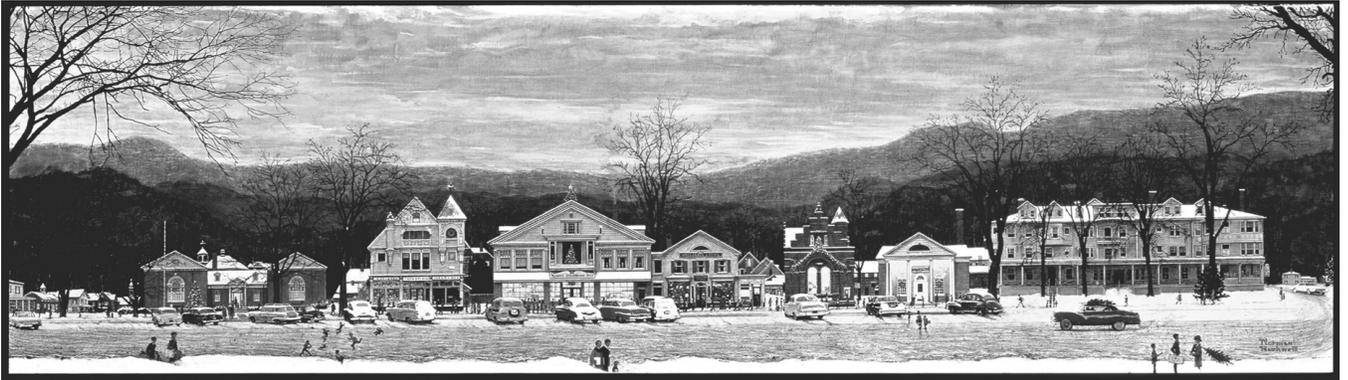
<u>CFDA#</u>	<u>Program Name</u>	<u>Total Expenditure</u>
66.463	WATER QUALITY COOPERATIVE	\$ 93,262
66.605	PERFORMANCE PARTNERSHIP GRANT	1,340,838
66.606	SURVEY/STUD/INVEST/SPEC GRANTS	63,336
66.701	TOXIC SUBSTANCE COMPLIANCE	45,022
81.041	STATE ENERGY PROGRAM	51,394
81.042	WEATHRZTN ASSTNC-LOW INCME PER	6,128,310
81.119	STATE ENERGY PROG SPEC PROJECT	352,449
83.516	DISASTER ASSISTANCE	321,734
83.535	MITIGATION ASSITANCE PROGRAM	1,595,050
84.002	ADULT ED-STATE GRANT PROGRAM	7,924,704
84.010	TTL I GRNTS-LOCAL ED AGENCIES	250,729,000
84.011	MIGRANT EDUC BASIC ST FRMLA GR	1,822,829
84.027	SPECIAL EDUCATION-STATE GRANTS	206,922,015
84.042	STUDENT SUPPORT SERVICES	1,740
84.044	TRIO TALENT SEARCH	1,819
84.047	TRIO-UPWARD BOUND	17,726
84.048	VOCATION ED BASIC GRANT-STATES	17,778,331
84.069	LEVERGNG EDUC ASSITNCE PRTNRSH	1,073,853
84.126	VOCATIONAL REHAB GRANTS-STATES	5,692,054
84.128	REHAB SERVICES-SERVICE PROJECT	114,200
84.132	CENTER FOR INDEPENDENT LIVING	1,343,825
84.169	INDEPENDENT LIVING-ST GRANTS	28,090
84.173	SPECIAL EDUCATION-PRESCHL GRNT	7,258,155
84.176	PAUL DOUGLAS TEACHER SCHOLARSH	(36,518)
84.177	RHAB SERV-INDP LIV SRV-OLDR BL	167,526
84.181	SPEC ED-GRTS FOR INF&FAM W/DIS	7,843,282
84.185	ROBERT C. BYRD HONORS-SCHLRSHP	790,500
84.186	DRUG-FREE SCHL&COMM-STATE GRNT	6,945,566
84.187	SUPRT EMPLT-INDVL W/SEV DISABL	570,481
84.196	ED FOR HOMELESS-CHILDREN/YOUTH	940,818
84.213	EVEN START-ST EDUCTNL AGENCIES	4,225,402
84.215	FUND FOR IMPRVMNT OF EDUCATION	396,681
84.224	ASSISTIVE TECHNOLOGY	428,229
84.235	SPEC PROJ&DEMOS FOR SEV DISAB	136,932
84.243	TECH-PREP EDUCATION	1,676,486
84.255	LIFE SKILLS FOR STATE&LOC PRIS	194,747
84.282	CHARTER SCHOOLS	4,070,966
84.287	TWENTY FIRST CENTURY COMMUNITY	10,964,107
84.298	INNOVATIVE EDUCATION PROG STRA	6,512,331
84.318	TECHNOLOGY LITERACY CHALLENGE	12,790,931
84.323	STATE PROJECT IMPROVEMT GRANTS	43,964
84.330	ADVANCED PLACEMENT TEST FEE	61,876
84.332	COMPREHENSIVE SCHOOL REFORM	6,167,572
84.334	GEAR-UP	2,813,647
84.346	CAREERN RESOURCES NETWORK GRNT	96,493
84.350	TRANSITION TO TEACHINGA	280,135

**Notes to Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended June 30, 2004**

<u>CFDA#</u>	<u>Program Name</u>	<u>Total Expenditure</u>
84.352	SCHOOL RENOVATION,IDEA&TECH PG	\$ 7,774,873
84.357	READING FIRST STATE GRANTS	16,181,928
84.358	RURAL EDUCATION ACHIEVEMENT	220,990
84.365	ENGLISH LANGUAGE ACQUISITION	8,030,382
84.366	MATHEMATICS AND SCIENCE PART	1,274,821
84.367	IMPROVING TEACHER QUALITY GRAN	50,119,243
89.003	NATL HISTORIC PUB&REC GRANTS	50,000
93.003	PUBLIC HEALTH & SOCIAL SERV	2,066,220
93.044	SPC PROGS AGING TITIII, PRT B	8,006,035
93.045	SPC PROGS AGING TITLEIII,PRTC	13,180,742
93.048	SPC PROG AGING TITLE IV,TR,RS	357,505
93.052	NATIONAL FAMILY CAREGIVER SUPP	3,460,878
93.056	NUTRITION SERVICES	2,608,387
93.104	COMP COMM MENTAL HLTH CHILDRN	1,141,075
93.110	MATERNAL/CHILD HEALTH PROGRAMS	10,400
93.116	PRJCT GRNTS&COOP AGRMNTS-TBRCU	137,506
93.118	AIDS ACTIVITY	30,000
93.127	EMERGENCY MEDICAL SERV-CHILDRN	44,121
93.136	INJURY PREV&CONTROL RESEARCH	1,006,530
93.150	PRJCTS/ASST IN TRANS HOMELSSNS	1,151,027
93.153	HIV DEMO PROG FOR WO/CH/ADOLS	751,248
93.161	HLTH PROGM -TOXIC SUBST&DIS REG	808
93.197	CHILDHOOD LEAD POISONING PREVN	362,491
93.234	TRAUMATIC BRAIN INJURY	27,810
93.239	POLICY RESEARCH AND EVALUATION	500,168
93.268	CHILDHOOD IMMUNIZATION GRANTS	338,716
93.283	CNTR DIS CNTRL-INVST/TECH ASST	11,987,843
93.556	FAM PRESERV & SUPPORT SERVICES	3,679,016
93.568	LOW INC HOME ENERGY ASSIST	82,438,122
93.569	COMM SERVICES BLOCK GRANT	16,067,422
93.570	COMMUNITY SERVICES BLOCK GRANT	31,097
93.575	CHILD CARE & DEVT DISCRETIONARY	116,018,106
93.576	REFUGEE AND ENTRANT ASSISTANCE	468,917
93.583	REFUGEE/ENTRANT ASST WLSN/FISH	3,540,727
93.584	REFUGEE&ENTRANT ASSTNC TARGETD	1,397,425
93.590	COMM BASED FAMILY RES&SUPP GRT	450,120
93.596	CHILD CARE & DEVT MANDATORY	68,254,666
93.597	GRNTS TO STATES ACCESS/VISITN	26,409
93.631	DEVELOP DISABILITIES PROJECT	497,008
93.643	CHILDRN JUSTICE GRANTS-STATE	239,561
93.645	CHILD WELFARE SERV-ST GRANTS	148,742
93.652	ADOPTION OPPORTUNITIES	56,525
93.658	FOSTER CARE - TITLE IV-E	346,963
93.667	SOCIAL SERVICES BLOCK GRANT	82,910,520
93.669	CHILD ABUSE & NEGLECT ST GRANT	50,068
93.671	FAMILY VIOLENCE PRVNTN & SERVC	1,249,147

**Notes to Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended June 30, 2004**

<u>CFDA#</u>	<u>Program Name</u>	<u>Total Expenditure</u>
93.779	HEALTH CARE FINANCING	\$ 184,991
93.917	HIV CARE FORMULA GRANTS	21,988,135
93.940	HIV PREVENTION ACTIVITIES	6,005,916
93.941	HIV DEMONSTRATION RESEARCH	983,155
93.944	HIV SYNDROME AIDS SURVEILLANCE	5,950
93.945	ASST PROG FOR CHRONIC DISEASE	127,401
93.959	SUBSTANCE ABUSE PREVENT/TREAT	29,939,296
93.977	PREVENTIVE HLTH SERV-STD CNTRL	60,774
93.978	PREVENTIVE HLTH SVCS-STD,DEMO	6,112
93.988	COOP AGRMTS-ST DIABTS CNTRL/EV	227,000
93.991	PREVNT HLTH/HLTH SERV BLK GRNT	525,283
93.994	MTRNL&CHILD HLTH SERV BLK GRNT	4,198,475
94.004	LEARN & SERVE AMERICA SCHOOL	516,320
96.001	SOCIAL SECURITY-DISABLIITY INS	353,152
96.008	SOCIAL SECURITY BENEFITS, PLAN	22,850
97.004	STATE DOMESTIC PREPR EQUIP SP	15,723,107
97.029	FLOOD MITIGATION ASSISTANCE	513,817
97.036	PUBLIC ASSISTANCE GRANT	30,451,915
97.042	EMERGENCY MGT PERFORMANCE	340,670
97.051	STATE & LOCAL EMERG OPERATION	1,569,814
97.053	CITES & COURTS	324,645
97.054	COMMUNITY EMERGENCY RESPONSE	121,021



### *Home for Christmas*

*McCalls*, December 1967, Licensed by Norman Rockwell Licensing, Niles, IL.

*“Commonplaces never become tiresome. It is we who become tired when we cease to be curious and appreciative.”*

*— Norman Rockwell*

This very popular illustration, began by Rockwell in the 1950s, was not completed by him until the 1960s. To bring the picture up to date, he added a 1960s car to each end of Main Street.